MERLIN PROPERTIES, SOCIMI, S.A.

Consolidated Financial Statements for the period of nine months and seven days ended 31 December 2014, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and Directors' Report, together with Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of MERLIN PROPERTIES, SOCIMI, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MERLIN PROPERTIES, SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the period of nine months and seven days then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's Directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of MERLIN PROPERTIES, SOCIMI, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2.1 to the accompanying consolidated financial statements) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's Directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of MERLIN PROPERTIES, SOCIMI, S.A. and Subsidiaries as at 31 December 2014, and their consolidated results and their consolidated cash flows for the period of nine months and seven days then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' report for the period of nine months and seven days ended 31 December 2014 contains the explanations which the Parent's Directors consider appropriate about the situation of MERLIN PROPERTIES, SOCIMI, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated Directors' report is consistent with that contained in the consolidated financial statements for the period of nine months and seven days ended 31 December 2014. Our work as auditors was confined to checking the consolidated Directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of MERLIN PROPERTIES, SOCIMI, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Antonio Sánchez-Covisa Martín-González

26 February 2015

Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the period of nine months and seven days ended 31 December 2014 prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS), and the Consolidated Management Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

(Thousands of euros)

ASSETS	Notes	31/12/2014	EQUITY AND LIABILITIES	Notes	31/12/2014
NON-CURRENT ASSETS:			**EQUITY:**		
Intangible assets		**149**	**Subscribed capital**		**129,212**
Property, plant and equipment		**894**	**Share premium**		**1,162,368**
Investment property	**7**	**1,969,934**	**Reserves**		**(30,475)**
Non-current financial assets-		**281,192**	**Other equity holder contributions**		**540**
Derivatives	**9**	261,689	**Valuation adjustments**		**(2,636)**
Other financial assets	**9**	19,503	**Profit for the period**		**49,670**
Deferred tax assets	**16**	**9,369**	**Equity attributable to equity holders of the Parent**	**12**	**1,308,679**
Total non-current assets		**2,261,538**			
			NON-CURRENT LIABILITIES:		
			Non-current bank borrowings	**13**	**1,027,342**
			Other financial liabilities	**9 and 14**	**21,498**
			Deferred tax liabilities	**14 and 16**	**24,432**
			Provisions	**14**	**476**
			Total non-current liabilities		**1,073,748**
			CURRENT LIABILITIES:		
CURRENT ASSETS:			**Bank borrowings**	**13**	**10,809**
Trade and other receivables	**9 and 10**	**3,340**	**Other current financial liabilities**	**14**	**190**
Other current financial assets	**9**	**125,791**	**Trade and other payables**	**15**	**23,302**
Other current assets		**122**	**Current tax liabilities**	**15 and 16**	**75**
Cash and cash equivalents	**11**	**26,050**	**Other current liabilities**	**14**	**38**
Total current assets		**155,303**	**Total current liabilities**		**34,414**
TOTAL ASSETS		**2,416,841**	**TOTAL EQUITY AND LIABILITIES**		**2,416,841**

The accompanying Notes 1 to 24 to the consolidated financial statements and Appendix I are an integral part of the consolidated statement of financial position at 31 December 2014.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD OF NINE MONTHS AND SEVEN DAYS ENDED 31 DECEMBER 2014

(Thousands of euros)

	Notes	2014
CONTINUING OPERATIONS:		
Revenue	**17.a and 6**	**56,616**
Other operating income		**381**
Employee benefits expense	**Note 17.c**	**(3,079)**
Other operating expenses	**Note 17.b**	**(16,013)**
Gains on disposal of assets		**126**
Depreciation and amortization		**(35)**
Negative goodwill on business combinations	**3**	**7,247**
OPERATING PROFIT		**45,243**
Finance income	**Note 17.d**	**473**
Finance costs	**Note 17.d**	**(18,555)**
Change in fair value of financial instruments	**Note 17.d**	**(25,920)**
Change in fair value of investment properties	**7**	**49,471**
PROFIT BEFORE TAX		**50,712**
Income tax	**16**	**(1,042)**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**49,670**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT		**49,670**
EARNINGS PER SHARE (in euros)	**12.5**	0.38
BASIC EARNINGS PER SHARE (in euros)	**12.5**	0.58
DILUTED EARNINGS PER SHARE (in euros)	**12.5**	0.58

The accompanying Notes 1 to 24 to the consolidated financial statements and Appendix I are an integral part of the consolidated income statement for 2014.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE PERIOD OF NINE MONTHS AND SEVEN DAYS ENDED 31 DECEMBER 2014

(Thousands of euros)

	Notes	2014
PROFIT FOR THE YEAR (I)		**49,670**
OTHER COMPREHENSIVE INCOME:		
Income and expenses recognized directly in equity		
From cash flow hedges		**(3,746)**
Translation differences		
OTHER COMPREHENSIVE INCOME RECOGNIZED DIRECTLY IN EQUITY (II)		**-**
Amounts transferred to income statement		**1,110**
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT (III)		**1,110**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**47,034**
Attributable to equity holders of the Parent		**47,034**

The accompanying Notes 1 to 24 to the consolidated financial statements and Appendix I are an integral part of the consolidated comprehensive income statement for 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD OF NINE MONTHS AND SEVEN DAYS ENDED 31 DECEMBER 2014

(Thousands of euros)

	Share capital	**Share premium**	**Other reserves**	**Shareholder contributions**	**Profit for the Year**	**Valuation adjustments**	**Total equity**
Incorporation of the Parent (Note 12)	60	-	-	-	-	-	**60**
Transactions with equity holders or owners-							
Capital increases (Note 12)	129,152	1,162,368	(30,475)	540	-	-	**1,261,585**
Consolidated comprehensive income for 2014	-	-	-	-	49,670	(2,636)	**47,034**
Balances at 31 December 2014	**129,212**	**1,162,368**	**(30,475)**	**540**	**49,670**	**(2,636)**	**1,308,679**

The accompanying Notes 1 to 24 to the consolidated financial statements and Appendix I are an integral part of the consolidated statement of changes in equity for 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD OF NINE MONTHS AND SEVEN DAYS ENDED 31 DECEMBER 2014

(Thousands of euros)

	Notes	2014
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:		**27,928**
Profit before tax		**50,712**
Adjustments for:		**(12,128)**
Depreciation and amortization		35
Change in fair value of investment properties	7	(49,471)
Change in current provisions	10	77
Change in Provisions		476
Negative goodwill on business combinations	3	(7,247)
Finance income	17.d	(473)
Finance expenses	17.d	18,555
Change in fair value of financial instruments	17.d	25,920
Changes in working capital-		**19,165**
Trade and other receivables		(3,417)
Other current assets		(122)
Trade and other payables		22,471
Other assets and liabilities		233
Other cash flows from/(used in) operating activities-		**(29,821)**
Interest paid		(28,616)
Interest received		473
Income tax paid		(1,678)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:		**(1,401,988)**
Payments on investments-		**(1,401,988)**
Net cash flow from acquisition	**3**	**(723,725)**
Investment property	7	(551,394)
Property, plant and equipment		(929)
Intangible assets		(149)
Financial assets	9	(125,791)
Proceeds from disposals-		-
Investment property		-
Property, plant and equipment		-
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:		**1,400,110**
Proceeds from and payments for equity instruments-		**1,261,645**
Issue of equity instruments		1,261,105
Other equity holder contributions		540
Proceeds from and payments for financial liabilities-		**138,465**
Bank borrowings		206,838
Repayment of bank borrowings		(68,373)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**26,050**
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period		**26,050**

The accompanying Notes 1 to 24 to the consolidated financial statements and Appendix I are an integral part of the consolidated statement of cash flows for 2014.

Merlin Properties SOCIMI, S.A. and Subsidiaries

Notes to the consolidated financial statements for the period of nine months and seven days ended 31 December 2014

1. Nature and activity of the Group

Merlin Properties SOCIMI, S.A. (hereinafter, the Parent) was incorporated in Spain on 25 March 2014 under the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*). On 22 May 2014, the Parent requested to be included in the tax regime for listed real estate investment companies (*sociedades cotizadas de inversión en el mercado inmobiliario*, hereinafter SOCIMIs), effective from 1 January 2014.

Its registered office is located at Paseo de la Castellana, 42, Madrid.

The Parent Company's corporate purpose, as set out in its bylaws, is as follows:

- The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per the Value Added Tax Act 37/1992, of 28 December;

- The holding of equity stakes in other SOCIMIs or in other non-resident entities in Spain with the same corporate purpose as the aforesaid and that operate under a similar regime as that established for SOCIMIs vis-à-vis the mandatory, legal or bylaw policy on the appropriation of results;

- The holding of equity stakes in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban real estate for subsequent leasing, and which operate under the same regime as that established for SOCIMIs vis-à-vis the mandatory, legal or bylaw policy on the appropriation of results, and which fulfil the investment requirements stipulated for these companies; and

- The holding of shares or equity stakes in collective real estate investment institutions (*Instituciones de Inversión Colectiva Inmobiliaria*) regulated by the Collective Investment Institution Act 35/2003, of 4 November, or any law that may replace this in the future.

In addition to the economic activity deriving from the principal corporate purpose, the Parent may also carry on any other complementary activities; these being any that generate income representing less than 20%, taken as a whole, of the Company's income in each tax period, or any that can be classified as complementary as per prevailing legislation.

The activities included in the Parent's corporate purpose may be indirectly carried on, either wholly or in part, through the ownership of shares or equity stakes in companies with similar or identical corporate purposes.

None of the activities reserved for other entities under special legislation cannot be directly (or where applicable, indirectly) performed. If the law prescribes the need for a professional qualification, administrative authorization, entry in a public register, or any other requirement for the purpose of exercising any of the activities within the corporate purpose, no such activity can be exercised until all the applicable professional or administrative requirements have been met.

The principal activities of Merlin Properties SOCIMI, S.A. and Subsidiaries (hereinafter, the Group) are to acquire and manage (through leasing to third parties) offices, industrial units and retail premises, primarily. They may also invest to a lesser extent in other assets for lease or direct sale of logistics centers.

On 30 June 2014, the Company was floated on the Spanish stock market through the issuance of €125,000 thousand shares, with a share premium of €1,125,000 thousand. Merlin Properties SOCIMI, S.A.'s shares/securities have been listed on the electronic trading system of the Spanish stock exchanges since 30 June 2014.

The Parent and its subsidiaries are governed by Act 11/2009, of 26 October, as amended by Act 16/2012, of 27 December, regulating SOCIMIs. Article 3 of said Act sets out the investment requirements for this kind of company:

1. At least 80% of a SOCIMI's assets must be invested in urban real estate for leasing purposes and/or in land to be developed for leasing purposes provided such development starts within three years of acquisition, along with investments in the capital or equity of other entities referred to in Section 1, Article 2 of the Act.

   The asset's value will be determined on the basis of the individual quarterly balances sheet averages in the year of reference. The SOCIMI may opt to calculate such value by taking into account the assets' market value instead of their carrying amount, in which case that value would apply to every balance sheet in the financial year. For this purpose, the cash or receivables from transfer of investment property or equity investments carried out during the same year or earlier shall not be taken into account, provided, in the latter case, that the reinvestment period of Article 6 of said Act has not elapsed.

2. Furthermore, at least 80% of the income for the tax periods for each year, excluding income from transfer of equity investments and real estate that are earmarked for pursuit of the principal corporate purpose, once the holding period referred to in the following paragraph has elapsed, must arise from lease of investment property and from dividends or profit shares obtained from those holdings.

   This percentage will be calculated on the basis of the consolidated profit or loss if the company is the parent of a group as per the criteria of Article 42 of the Code of Commerce, irrespective of residence and of the obligation to draw up consolidated financial statements. Said group will be exclusively composed of the SOCIMI and all the other entities referred to in Section 1, Article 2 of said Act.

3. The SOCIMI's real estate assets must be leased for at least three years. Computation of that period will also include the time during which the properties have been offered for lease, up to a maximum of one year.

   The period shall be calculated:

   a) For real estate in the SOCIMI's asset base before the SOCIMI becomes subject to the regime: From the beginning of the first tax period during which the special tax regime applies as regulated by the Act, provided that at the time the asset was leased or on lease. Otherwise, the paragraph below will apply.

   b) For real estate subsequently developed or acquired by the SOCIMI: From the date on which it was leased or offered for lease for the first time.

   c) Shares or equity investments in entities referred to in Section 1, Article 2 of the Act must be kept in the SOCIMI's asset base at least during three years after their acquisition or, if applicable, from the beginning of the first tax period during which the special tax regime established in the Act applies.

As provided by the First Transitional Provision of Act 11/2009 of 26 October, as amended by Act 16/2012 of 27 December, regulating SOCIMIs, the companies may opt to be subject to the special tax regime as provided by Article 8 of the mentioned Act, even when the legal requirements at the date of inclusion in that regime are not fulfilled, provided said requirements are met within two years of the date application of the SOCIMI tax regime is sought.

Failure to fulfil said condition will render the SOCIMI subject to the general corporate income tax rules, starting in the tax period in which the non-fulfilment is detected, unless it is remedied within the following tax period. In addition, the SOCIMI will have to settle the amount payable for the corresponding tax period, along with the difference between the amount resulting from application of the general regime and the amount paid pursuant to the special regime in the previous tax periods, without prejudice to such default interest, surcharges or penalties as may be deemed applicable.

SOCIMIs are taxed at a 0% corporate income tax. However, where dividends distributed to an equity holder owning at least 5% of the SOCIMI's share capital are exempt from taxation or taxed below 10%, such SOCIMI will be subject to a special charge of 19% of the dividends distributed to the said equity holder, in respect of corporate income tax. If deemed applicable, this special charge shall be paid by the SOCIMI within two months after the dividend distribution date.

The Group's consolidated financial statements and the separate financial statements of its constituent companies for 2014, authorized for issue by their respective boards of directors, are pending approval by shareholders at their respective annual general meetings. However, the directors of the Parent expect these financial statements to be approved without significant changes. Merlin Properties, SOCIMI, S.A.'s separate and consolidated financial statements for 2014 were authorized for issue by the Parent's directors at the meeting of the Board of Directors on 26 February 2015.

In view of the business activities currently carried on by the Group, it does not have any environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to consolidated financial statements.

2. Basis of presentation of the consolidated financial statements and consolidation principles

2.1. Regulatory framework

The regulatory framework for financial information applicable to the Group is laid down in:

- The Spanish Code of Commerce and other corporate law;

- International Financial Reporting Standards (IFRS) as adopted by the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and Law 62/2003, of 30 December, on tax, administration and social security measures, as well as applicable rules and circulars of the Spanish securities market regulator (*Comisión Nacional del Mercado de Valores*, CNMV); and

- Act 11/2009, of 26 October, amended by Act 16/2012, of 27 December, regulating SOCIMIs and other corporate law; and

- Other applicable Spanish accounting standards.

2.2 Bases of presentation of the consolidated financial statements

The consolidated financial statements for 2014 were prepared from the accounting records and financial statements of the Parent and consolidated companies, and have been presented in accordance with the regulatory framework for financial information described in Note 2.1 above to provide a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2014 and the consolidated results of its operations, changes in consolidated equity, and consolidated cash flows during the period of nine months and seven days then ended.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2014 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with the IFRS adopted by the European Union.

In order to ensure the uniform presentation of the various items composing the consolidated financial statements, the accounting policies and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

2.2.1 Adoption of International Financial Reporting Standards effective as from 1 January 2014

The Group's consolidated financial statements for the period ended 31 December 2014 were prepared in accordance with the IFRS, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July, under which all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in conformity with the IFRS ratified by the European

Union. In Spain, the requirement to present consolidated financial statements in accordance with the IFRS endorsed in Europe is also regulated by Final Provision 11 of Law 62/2003, of 30 December, on tax, administrative, labor and social security measures.

The main accounting principles and measurement bases adopted by the Group are detailed in Note 5.

The following mandatory standards and interpretations, already adopted in the European Union, became effective in 2014. Where applicable, the Group has used them in the preparation of the accompanying consolidated financial statements:

New standards, amendments and interpretations		**Mandatory application for financial years beginning on or after**:
Approved for use in the European Union		
IFRS 10 – Consolidated Financial Statements (published in May 2011)	Replaces the current consolidation requirements of IAS 27	Annual reporting periods beginning on or after 1 January 2014 (1)
IFRS 11 – Joint Arrangements (published in May 2011)	Replaces IAS 31 – Interests in Joint Ventures	Annual reporting periods beginning on or after 1 January 2014 (1)
IFRS 12 – Disclosure of Interests in Other Entities (published in May 2011)	A single standard that sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities	Annual reporting periods beginning on or after 1 January 2014 (1)
IAS 27 – Separate Financial Statements (Revised) (published in May 2011)	Revises IAS 27 which, after the issue of IFRS 10, deals only with separate financial statements	Annual reporting periods beginning on or after 1 January 2014 (1)
IAS 28 – Investments in Associates and Joint Ventures (Revised) (published in May 2011)	Simultaneous revision related to the issuance of IFRS 11 – Joint Arrangements	Annual reporting periods beginning on or after 1 January 2014 (1)
Transition rules: Amendments to IFRS 10, 11 and 12 (published in June 2012)	Clarification of the transition rules of these standards	Annual reporting periods beginning on or after 1 January 2014
Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities (published in December 2011)	Further clarifications of the rules for offsetting financial assets and financial liabilities of IAS 32	Annual reporting periods beginning on or after 1 January 2014
Investment entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (published in October 2012)	Exception in consolidation for parent companies whose businesses qualify as investment entities	Annual reporting periods beginning on or after 1 January 2014
Amendments to IAS 36 – Recoverable Amount Disclosures for Non-financial Assets (published in May 2013)	Clarifies certain disclosure requirements and requires additional information when recoverable amount is based on fair value less costs of disposal	Annual reporting periods beginning on or after 1 January 2014
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	Determine the cases where and criteria under which there would be no need to discontinue hedge accounting if a hedging derivative was novated	Annual reporting periods beginning on or after 1 January 2014

(1) The European Union has postponed the date of mandatory application by one year. The original application date by the International Accounting Standards Board (IASB) was 1 January 2013

2.2.2 New mandatory standards, amendments and interpretations applicable in the years subsequent to the calendar year beginning 1 January 2014 (applicable as of 2015):

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not become effective, either because they came into effect after the date of the consolidated financial statements or because they had yet to be endorsed by the European Union:

Standards, amendments and interpretations	**Description**	**Mandatory application for financial years beginning on or after**:
IFRS 9 – Financial Instruments: Classification and Measurement (published in November 2009 and October 2010) and subsequent amendments to IFRS 9 and IFRS 7 on effective date and transition disclosures (published in December 2011) and hedge accounting and other amendments (published in November 2013)	Replaces the requirements for the classification, measurement and derecognition of financial assets and financial liabilities under IAS 39	Annual reporting periods beginning on or after 1 January 2018
IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture	Amendments to treatment of a sale or contribution of assets between an investor and its associate or joint venture	Annual reporting periods beginning on or after 1 January 2016 (1)
IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (published in May 2014)	Specifies how to account for acquisitions of interests in joint operations whose activity constitutes a business	Annual reporting periods beginning on or after 1 January 2016 (1)
IFRS 14 – Regulatory Deferral Accounts	Specifies the reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation	Annual reporting periods beginning on or after 1 January 2016
IFRS 15 – Revenue from Contracts with Customers (published in May 2014)	New revenue recognition standard. Replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new IFRS 15 model is far more restrictive and principles-based, and also has a very different contractual approach. Application of the new requirements could therefore give rise to changes in the revenue profile	Annual reporting periods beginning on or after 1 January 2017 (1)
IAS 16 and IAS 38 – Acceptable Methods of Depreciation and Amortization (published in May 2014)	Provides clarification of acceptable methods of depreciation and amortization	Annual reporting periods beginning on or after 1 January 2016, applied prospectively (1)
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (published in November 2013)	Amendments clarifying the accounting treatment for contributions from employees or third parties that are linked to service	Annual reporting periods beginning on or after 1 July 2014 (1)
IFRIC 21 – Levies (published in May 2013)	Guidance on when to recognize a liability for levies charged for participation by the entity in an activity on a specified date	Annual reporting periods beginning on or after 1 January 2014 (2)
IAS 27 – Amendments to prescribe the application of the equity method of accounting in separate financial statements	Amendments to prescribe application of the equity method of accounting in separate financial statements	Annual reporting periods beginning on or after 1 January 2016 (1)

(1) Pending adoption by the European Union

(2) The European Union endorsed IFRIC 21 (EU Bulletin 14 June 2014), replacing the original effective date established by the IASB (1 January 2014) with that of 17 June 2014

The Group is currently assessing the impact that the future application of these standards might have on the financial statements once they enter into force. The Group's preliminary assessment is that the impact of the application of these standards will not be significant.

2.3 Functional currency

The presentation currency of the consolidated financial statements is the euro, which is the Group's functional currency.

2.4 Comparison of information

As indicated in Note 1, the Parent was incorporated on 25 March 2014. Accordingly, its consolidated financial statements are for the period 25 March 2014 to 31 December 2014. Given that this is the Parent's first year of activity, the directors have not included any comparative figures in the consolidated statement of financial position, consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flows or the notes thereto.

2.5 Responsibility for the information and estimates made

The information contained in these financial statements is the responsibility of the Parent's directors.

In the Group's consolidated financial statements for 2014, estimates were occasionally made by the senior executives of the Group and of the consolidated companies, later ratified by the directors, in order to quantify certain assets, liabilities, income, expenses and commitments reported therein. These estimates essentially relate to the following:

1. The market value of the Group's property assets (see Notes 5.1 and 7). The Group obtained valuations from independent experts at 31 December 2014;

2. The fair value of certain financial assets (see Note 5.5);

3. Measurement of provisions and contingencies (see Note 5.9);

4. Management of financial risk and, in particular, of liquidity risk (see Note 22); and

5. The recovery of deferred tax assets and the tax rate applicable to temporary differences (see Note 5.11).

Changes in estimates:

Although these estimates were made on the basis of the best information available at 31 December 2014, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognized in the corresponding consolidated income statement.

2.6 Consolidation principles applied

Companies are fully consolidated when the Parent has effective control over them by holding the majority of the voting rights in their governing or decision-making bodies and the power to participate in the financial and operating policy decisions of said companies.

2.6.1 Subsidiaries

Subsidiaries are entities over which the Parent, either directly or indirectly through subsidiaries, exercises control. The Parent controls a subsidiary when it is exposed, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. Therefore, all material balances and results of transactions carried out between consolidated companies are eliminated on consolidation.

Third party interests in the Group's equity and profit or loss are recognized under "Non-controlling interests" in the consolidated statement of financial position and "Result attributable to non-controlling interests" in the consolidated income statement and consolidated comprehensive income statement, respectively.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition or to the date of disposal, as appropriate.

At 31 December 2014, all the Parent's subsidiaries are controlled by it and have therefore been fully consolidated. Appendix I of these notes gives details and information about the subsidiaries.

2.6.2 Business combinations

The Group applies the purchase method for business combinations. The date of acquisition is the date on which the Group takes control of the acquiree.

The consideration paid is calculated at the date of acquisition as the aggregate of the fair values of the assets acquired, the liabilities incurred or assumed, and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs, such as professional fees, do not form part of the cost of the business combination, but are taken directly to the consolidated income statement.

Where applicable, the contingent consideration is recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are taken to the consolidated income statement unless this change arises within the period of 12 months established as the provisional accounting period, in which case the change is recognized in goodwill.

Goodwill is calculated as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests, and the fair value of any previously held equity interest in the acquiree over the net identifiable assets of the acquiree.

If the acquisition cost of the net identifiable assets is less than their fair value, the lower value is taken to the consolidated income statement.

The first-time consolidation differences related to the acquisition of Tree Inversiones Inmobiliarias, SOCIMI, S.A. and Bosque Portfolio Management, S.L. were assigned as an increase in the value of the assets (see Note 3). The market value (calculated by independent appraisers) is higher in both cases than the carrying amount per the consolidated statement of financial position at the date of first-time consolidation.

2.6.3 Scope of consolidation

As explained in Note 1, the Merlin Group was incorporated in 2014, whereby all the subsidiaries were consolidated in the Group in 2014. The subsidiaries forming part of the Merlin Group at 31 December 2014 are as follows:

Company	Activity	Reason for inclusion in scope of consolidation	Ownership interest	Consolidation method
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	Acquisition and development of property assets for subsequent leasing	Acquisition	100%	Full consolidation
Merlin Oficinas, S.L.	Acquisition and development of property assets for subsequent leasing	Incorporation	100%	Full consolidation
Merlin Logística, S.L.	Acquisition and development of property assets for subsequent leasing	Incorporation	100%	Full consolidation
Merlin Retail, S.L.	Acquisition and development of property assets for subsequent leasing	Incorporation	100%	Full consolidation
Bosque Portfolio Management, S.L.	Real estate management	Acquisition	100%	Full consolidation

3. Business combination

On 3 July 2014, the Parent completed the acquisition of all the shares of the companies Tree Inversiones Inmobiliarias, SOCIMI, S.A. (owner of a portfolio of 885 assets leased to BBVA) and Bosque Portfolio Management, S.L. (company responsible for managing this portfolio). This business combination was intended to fulfil the corporate purpose of Merlin Properties SOCIMI, S.A. with regard to the acquisition of urban property assets for subsequent leasing to third parties.

Companies acquired and consideration transferred-

	Principal activity	Acquisition date	Percentage ownership (voting rights) acquired	Consideration transferred (thousands of euros)
Tree Inversiones Inmobiliarias SOCIMI, S.A.	Office leasing	3/7/2014	100%	739,483
Bosque Portfolio Management, S.L.	Real estate management	3/7/2014	100%	3
				739,486

The sale-purchase agreement for Tree Inversiones Inmobiliarias SOCIMI, S.A. and Bosque Portfolio Management, S.L. did not include any contingent considerations. The acquisition cost totaled €603 thousand, recognized under “Other operating expenses” on the accompanying consolidated income statement.

- Tree Inversiones Inmobiliarias SOCIMI, S.A.

	Thousands of euros		
	Carrying amount	Valuation adjustment	Fair value
Intangible assets	58	-	58
Property, plant and equipment	22	-	22
Investment property	990,002	379,066	1,369,068
Derivative	-	287,422	287,422
Other financial assets	12,560	-	12,560
Deferred tax assets	11,125	-	11,125
Current assets	16,156	-	16,156
Non-current liabilities	(889,410)	(25,091)	(914,501)
Current liabilities	(35,289)	-	(35,289)
Total net assets	**105,224**	**641,397**	**746,621**
Consideration transferred			739,483
Gain generated from business combination			**7,138**

Investment property has been measured at fair value. Fair value was obtained from the valuations performed by Savills at 31 December 2013, adjusted for the disposals of real estate assets prior to the purchase date, i.e. 3 July 2014. This fair value includes an embedded derivative corresponding to the rent multiplier included in the lease agreements signed with the current lessee of the properties, BBVA. Since these specific conditions on reviewing rents were considered by the appraiser when valuing the real estate assets, the Parent has estimated such rent reviews and recognized them separately in the accompanying consolidated financial statements. It has presented them separate from the host contract as a derivative financial instrument.

In this regard, the Parent has estimated the value of the embedded derivative based on an estimate of total future cash flows from the contract adjusted for counterparty credit risk. Future revenues from the leases are estimated using the eurozone inflation swap curve on the date of analysis (harmonized price index excluding tobacco) and factoring in the respective counterparty credit risk. The measurement approach used was based on the discounted cash flow model.

The valuation adjustment to non-current liabilities of €25,091 thousand corresponds to the deferred tax asset associated with the revaluation of investment property. The Parent estimated this amount taking into account that the company acquired is a SOCIMI; estimating the tax rate applicable to gains, and also considering the expected date on which the gain will be generated when the property is sold.

- *Bosque Portfolio Management, S.L.*

	Thousands of euros		
	Carrying amount	Valuation adjustment	Fair value
Intangible assets	33	-	33
Other financial assets	11	-	11
Deferred tax assets	50	-	50
Current assets	761	-	761
Current liabilities	(267)	(476)	(743)
Total net assets	**588**	**(476)**	**112**
Consideration transferred			3
Gain generated from business combination			**109**

The fair value of the receivables acquired in the business combinations – primarily trade receivables – is €440 thousand in the case of Tree Inversiones Inmobiliarias SOCIMI, S.A. and zero in the case of Bosque Portfolio Management, S.L., which does not differ from the gross contractual amounts. The Parent's directors do not consider that at the acquisition date there were any indications that these receivables would not be collected in full.

The profits and revenues generated by the acquired businesses in 2014 totaled €32,783 thousand and €44,242 thousand (Tree Inversiones Inmobiliarias SOCIMI, S.A.) and €17 thousand and €162 thousand (Bosque Portfolio Management, S.L.,), recognized in the consolidated income statement.

Had the two businesses been acquired on 1 January 2014, net profit would have increased by €4,449 thousand and revenues contributed to the Group would have been approximately €44,965 thousand higher compared to the figures in the accompanying consolidated financial statements. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2014 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from acquisition-

	Thousands of euros
Cash paid	739,486
Less: cash and cash equivalents	(15,761)
Total	**723,725**

4. Appropriation of the Parent's results

The allocation of losses proposed by the Parent's directors for approval by its shareholders at the Annual General Meeting, is as follows:

	Thousands of euros
Loss for the period	(3,053)
Appropriation:	
Prior years' losses	(3,053)

5. Accounting policies

The main accounting principles, policies and measurement criteria used by the Group in preparing the accompanying consolidated financial statements and which are in conformity with the IFRS in force at the date of the corresponding consolidated financial statements are detailed below:

5.1 Investment property

Investment property comprises buildings under construction and development for use as investment property, which are partially or fully held to generate revenue, profits or both, rather than for use in the production or supply of goods or services, or for the Group's administrative purposes or sale in the ordinary course of business.

All assets classified as investment property are occupied by various tenants. These properties are earmarked for leasing to third parties. The Parent's directors do not plan to dispose of these assets in the near future and have therefore decided to recognize them as investment property in the consolidated statement of financial position.

Investment property is stated at fair value at the end of the reporting period and is not depreciated. Investment property is land, buildings or other constructions held to earn rents or for capital appreciation upon disposal due to increases in their respective market prices in the future.

Gains or losses arising from changes in the fair value of investment property are included in the income statement in the year in which they arise.

While construction work is in progress, the costs of construction work and finance costs are capitalized. When the asset is put to use, it is recognized at its fair value.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property to ensure the fair value reflects the actual market conditions of the investment property at that date. Fair value is determined annually based on independent expert appraisals.

The market value of the Group's investment property at 31 December 2014, calculated on the basis of appraisals carried out by Savills, independent appraisers not related to the Group, amounted to €1,969,934 thousand (see Note 7).

5.2 Leases

5.2.1 Classification of leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially the risks and rewards of ownership to the Group, which usually has an option of acquiring the asset at the end of the lease under the conditions agreed when the transaction was arranged. All other leases are classified as operating leases. At 31 December 2014, the Group did not hold any finance leases.

5.2.2 Accounting treatment as lessor

Operating leases

Assets leased to third parties under operating leases are recognized according to their nature.

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the lease, net of any incentives granted.

Contingent payments from operating leases are recognized in the consolidated income statement when it is probable that they will be collected, which generally occurs when the conditions stipulated in the lease agreement are fulfilled.

5.2.3 Accounting treatment as lessee

Operating leases

Lease payments under an operating lease, net of any incentives received, are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The Group expenses the initial costs directly incurred under the operating leases as they are incurred.

Contingent payments on operating leases are expensed when it is probable that they will be incurred.

5.3 Financial instruments

Financial instruments are classified upon initial recognition as a financial asset, a financial liability or equity instrument, according to the substance of the contract and the definitions of financial asset, financial liability and equity instrument given in IAS 32 – Financial Instruments: Presentation.

Financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument.

For measurement purposes, financial instruments are classified as financial assets or liabilities at fair value through profit or loss, separating those initially classified as held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortized cost. The financial instruments are classified in these categories depending on their nature and the Group's intentions at the time of initial recognition.

Financial assets

Financial assets are recognized in the consolidated statement of financial position on acquisition, and are initially measured at fair value. The financial assets held by the Group companies are classified as:

1. Loans and receivables: Financial assets originated by Group companies in exchange for cash, or from the sale of goods or the rendering of services, which have fixed or determinable payments and are not traded in an active market.

2. Held-for-trading financial assets: Assets acquired with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices. It also includes derivatives that are not designated as hedging instruments.

3. Held-to-maturity investments: Assets with fixed or determinable payments and fixed maturity. The Group must also have the positive intention and ability to hold these securities from the date of acquisition to maturity.

Loans and receivables are initially measured at the fair value of the consideration given plus directly attributable transaction costs and, thereafter, at amortized cost. The Group has recognized provisions to cover non-payment risks. These provisions are calculated according to the probability of recovering the debt based on its age and the debtor's solvency. At 31 December 2014, the fair value of these assets was not materially different from their value in the consolidated statement of financial position.

Financial assets held for trading are measured at fair value through profit and loss in the consolidated income statement. The fair value of a financial instrument on a given date is the amount at which the asset could be exchanged between knowledgeable, willing parties in an arms' length transaction.

At least at each reporting date, the Group tests its financial assets not measured at fair value for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognized in the consolidated income statement.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the cash flows from the financial assets or transfers substantially all the risks and rewards of ownership of the financial asset. However, the Group does not derecognize financial assets which it sells while retaining substantially all the risks and rewards of ownership, instead recognizing a financial liability equal to the consideration received.

Financial liabilities

The main financial liabilities held by Group companies are held-to-maturity financial liabilities, which are measured at amortized cost. Group companies classify their financial liabilities as follows:

1. Bank loans and other borrowings: Loans obtained from banks and other lending institutions are recognized at the amount received net of any loan arrangement costs incurred and subsequently measured at amortized cost. Finance costs are recognized on an accruals basis in the consolidated income statement using the effective interest method and are added to the carrying amount of the financial liability to the extent that they are not settled in the year in which they arise.

2. Trade and other payables: Payables originated on trade operations are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

The Group derecognizes financial liabilities once the resulting obligations have been extinguished.

5.4 Derivative financial instruments and hedge accounting

The Group uses derivatives to hedge its exposure to business, operating and cash flow risks. There risks are mainly due to variations in interest rates and inflation. Among the various transactions, the Group uses certain financial instruments as economic hedges.

In order for these financial instruments to qualify as accounting hedges they are designated as such from the outset and the hedge relationship is documented. The Group also verifies the effectiveness of the hedge initially, and subsequently on a period basis over the term of the hedge (at least at the end of each reporting period). A hedge is effective if it is expected, prospectively, that the changes in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80 to 125% of gains or losses on the hedged item.

Financial derivatives are initially recognized at cost in the consolidated statement of financial position, and the required valuation adjustments are subsequently made to reflect their fair value at all times. Increases in value are recognized under "Non-current financial assets – Derivatives" and "Other current financial assets – Derivatives" and reductions in value under "Non-current and current bank borrowings – Derivatives" in the consolidated statement of financial position. Gains and losses from these changes are recognized in the consolidated income statement, unless the derivative has been designated as a hedging instrument and the resulting hedge is highly effective, in which case the recognition criteria are as follows:

- Cash flow hedges: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized temporarily in equity and taken to profit and loss in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a financial asset or liability, in which case the amounts recognized in equity are included in the cost of the asset acquired or liability assumed.

- Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the period.

Any derivatives embedded in other financial instruments or in host contracts are recognized separately as derivatives if their risks and characteristics are not closely related to those of the instrument or host contract, provided that the host contracts are not measured at fair value by recognizing changes in fair value in the consolidated comprehensive income statement.

The fair value of the derivative financial instruments is calculated using the valuation methods described in Note 5.5 below.

5.5 Valuation techniques and assumptions used to measure fair value

The fair values of financial assets and financial liabilities are determined as follows:

- Fair values of financial assets or liabilities with standard terms and conditions traded on active liquid markets are determined by reference to their quoted market price.

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions and dealer quotes for similar instruments.

- The fair value of interest rate swaps is calculated by discounting future settlements between fixed and floating interest rates to their present value, in line with implicit market interest rates, obtained from long-term interest rate swap curves. Implicit volatility is used to calculate the fair values of caps and floors using option valuation models.

Consideration must be given when valuing financial derivative instruments that the derivative must also effectively offset the exposure inherent to the hedged item or position throughout the expected term of the hedge, and there must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effectiveness was intended to be achieved and measured. Moreover, pursuant to IFRS 13 and due to the inherent risk, credit risk of the parties to the contract – both own risk and that of the counterparty – must be included when valuing derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by the Merlin Group's own credit risk.

Financial instruments measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Measurements derived from (unadjusted) quoted prices in active markets for identical assets or liabilities.

- Level 2: Measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: Measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (non-observable inputs).

The Group's financial assets and liabilities measured at fair value were as follows at 31 December 2014:

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 13.2)	-	(53,407)	-	(53,407)
Embedded derivatives (Note 9)	-	261,689	-	261,689
	-	**208,282**	**-**	**208,282**

Note 7 also provides information on calculating the fair value of investment property in accordance with the valuation techniques described in said note.

5.6 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Parent after deducting all of its liabilities.

Equity instruments issued by the Parent are recognized in consolidated equity at the proceeds received, net of issue costs.

The Parent's equity instruments acquired by the Group are recognized separately at cost and deducted from equity in the consolidated statement of financial position, regardless of why they were acquired. No gains or losses from transactions involving own equity instruments are recognized in the consolidated income statement.

If the Parent's own equity instruments are subsequently redeemed, capital is reduced by the nominal amount of the treasury shares and the positive or negative difference between the acquisition price and nominal amount of the shares is debited from or credited to reserves.

5.7 Shareholder remuneration

Dividends are paid in cash and recognized as a reduction in equity when the pay-outs are approved by shareholders at the Annual General Meeting.

The Parent is subject to the special regime for SOCIMIs. As established in Article 6 of Act 11/2009, of 26 October, amended by Act 16/2012, of 27 December, the SOCIMIs opting to pay tax under the special tax regime are required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding commercial obligations have been fulfilled, said distribution must be agreed within six months from year end, and the dividends paid within 30 days from the date on which the pay-out is agreed.

Moreover, as specified in Act 11/2009, of 26 October, amended by Act 16/2012, of 27 December, the Parent must distribute the following as dividends:

- 100% of the profit from dividends or shares in profits distributed by the entities referred to in Section 1, Article 2 of Act 11/2009.

- At least 50% of the profits arising from the transfer of the properties, shares or ownership interests referred to in Section 1, Article 2 of Act 11/2009, of 26 October, subsequent to expiry of the time limits referred to in Section 3, Article 3 of Act 11/2009, which are used for pursuit of the entities' principal corporate purpose. The remainder of these profits must be reinvested in other property or investments used for the pursuit of said activity within three years after the transfer date. Otherwise these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items subject to reinvestment are transferred before the holding period ends, the related profits must be distributed in full together with any profits arising in the year in which they are transferred. The distribution obligation does not extend to the portion of these profits, if any, which may be allocated to years in which the Company did not file tax returns under the special tax regime of Act 11/2009 of 26 October.

- At least 80% of the remaining profits obtained. When dividend distributions are charged to reserves generated from profits in a year in which the special tax regime applied, the distribution must necessarily be approved as set out above.

5.8 Cash and cash equivalents

This includes cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and where the risk of change in value is insignificant. Interest on these investments is recognized as income when paid and interest accrued at period-end is recognized in the consolidated statement of financial position as an increase in this item.

5.9 Provisions

In preparing the consolidated financial statements, the Parent's directors made a distinction between:

- Provisions: Credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, but which are uncertain as to their amount and/or timing.

- Contingent liabilities: Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not within the Group's control.

Provisions are included in the consolidated financial statements when it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements, but rather disclosure is provided in the notes to the consolidated financial statements unless the possibility of an outflow in settlement is considered remote.

Provisions are recognized at the present value of the best estimate of the consideration required to settle or transfer the present obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognized as a finance cost on an accrual basis.

The compensation receivable from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will be received, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Group is not liable. In this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized, if any.

5.10 Revenue recognition

Revenue and expenses are recognized on an accruals basis; i.e. when the goods or services relating to them are provided, regardless of when actual payment or collection occurs. Rental income is measured at the fair value of the consideration received, net of discounts and taxes.

Discounts (rent waivers and rebates) granted to lessees are recognized as a reduction in rental income when it is probable that conditions precedent will be fulfilled requiring them to be granted.

Discounts are recognized by expensing the total rent waiver or rebate on a straight-line basis over the term of the lease agreement in force. If a lease agreement is cancelled earlier than expected, any outstanding rent waiver or rebate is recognized in the last period prior to the end of the agreement.

Leasing of investment property to third parties

The Group companies' principal activity comprises the acquisition and leasing of primarily shopping malls, logistics units and offices. The Group's ordinary income is generated from the leasing of this investment property to third parties.

Ordinary income from the leasing of investment property is recognized taking into account the stage of completion of the transaction at the reporting close, provided the result of the transaction can be reliably estimated. Income from the Group's leases is recognized by Group companies on a monthly basis pursuant to the conditions and amounts agreed with the lessees in the various agreements. This income is only recognized when it can be measured reliably and it is probable that the economic benefits from the lease will be received.

Where the outcome of services rendered cannot be measured reliably, revenue is recognized to the extent that the expenses incurred are deemed recoverable.

Service charges rebilled to lessees are recognized net of other operating expenses.

n) Tax matters

5.11.1 General tax regime

Income tax expense or income tax receivable includes both the current and deferred tax expense or income.

Current tax expense is the tax payable by the Company on its taxable income for a given year. Deductions and other tax benefits, excluding withholdings and prepayments, along with tax loss carryforwards from prior years effectively set off in the current period reduce the current tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as unused tax losses and tax credits. These amounts are measured by applying to the corresponding temporary difference or tax asset, the tax rate at which the asset is expected to be realized or the liability is expected to be settled.

Deferred tax liabilities are recognized for all taxable temporary differences except where the temporary difference arises from the initial recognition of goodwill, whose amortization is not deductible, or the initial recognition of an asset or liability in a transaction and affects neither the accounting result nor taxable profit or tax loss.

Deferred tax assets are recognized for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilized, and the deferred tax assets do not arise from the initial recognition of other assets and liabilities in a transaction that affects neither the accounting result nor taxable profit or tax loss. The remaining deferred tax assets (tax loss carryforwards, temporary differences and unused tax credits) are only recognized if it is considered likely that the consolidated companies will have sufficient taxable profits in the future against which they may be utilized.

Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments made where there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

5.11.2 SOCIMI tax regime

The SOCIMI special tax regime, as amended by Act 16/2012 of 27 December, is based on a 0% corporate income tax rate, provided certain requirements are met. Particularly noteworthy amongst those conditions is that at least 80% of income must come from urban real estate used for leasing purposes and acquired in full ownership or through holdings in companies that comply with the same investment and dividend distribution requirements, whether foreign or Spanish, and whether or not they are quoted in organized markets. Likewise, the main income sources of these entities must be real estate, either from leases, from subsequent sale of properties after a minimum leasing period or from income generated by holdings in entities of similar characteristics. Nevertheless, tax is accrued in proportion to dividend distributions. Dividends received by the members are exempt, unless the recipient is a legal person subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction in the tax liability is established, so that these earnings are taxed at the member's rate. However, the remaining earnings shall not be taxed so long as they are not distributed to members.

As provided by the Ninth Transitional Provision of Act 11/2009 of 26 October, as amended by Act 16/2012 of 27 December, which regulate SOCIMIs, the entity shall be taxed at a 19% rate on the total amount of dividends and profit shares distributed to members with a shareholding in the entity of 5% or more, when the said dividends are exempt or taxed at a rate below 10% in the members. The Group has therefore established the procedure guaranteeing confirmation by shareholders of their tax rate, proceeding where applicable, to withhold 19% of the dividend distributed to shareholders that do not meet the aforementioned tax requirements.

The Group has not distributed dividends to its shareholders.

5.12 Share-based payments

On the one hand, the Company recognizes the goods and services received as an asset, if qualifying, or an expense, when obtained, with an increase to equity, if the transaction is settled in equity instruments, or with the corresponding liability, if it is settled with an amount that is referenced to the value of equity instruments.

In the case of equity-settled transactions, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. In the case of cash-settled share-based payments, the goods and services received and the related liability are recognized at the fair value of the latter, by reference to the date on which the requirements for recognition are met.

At 31 December 2014, the Parent had a commitment to award an additional bonus to the management team as determined by the Appointments and Remuneration Committee, linked to the Company's shares, since the Company's Senior Management is remunerated based on the returns obtained by the Company's shareholders (the "Management Stock Plan").

The Company must exceed the following thresholds before members of Senior Management are entitled to shares under the Management Stock Plan:

- Total shareholder return per annum of over 8%. The annual shareholder return is calculated as the sum of any fluctuation in the Company's EPRA NAV over the year minus the net funds obtained from shares issued during the year, plus the dividends distributed during the year.

- The sum of: (i) MERLIN's EPRA NAV at 31 December of said year, and (ii) the total value of dividends (or any other form of shareholder remuneration or pay-out) distributed during said year or any prior year since the last year when there was an entitled to receive shares under the Management Stock Plan, must exceed the greater of the following amounts: (a) the opening EPRA NAV (opening EPRA NAV being the net funds obtained by the Company on offering and trading its shares) and (b) the EPRA NAV at 31 December (plus any adjustments resulting from excluding the net funds of any issuance of ordinary shares in said year) of the last year when there was an entitled to receive shares under the Management Stock Plan. This excess is referred to as the High Watermark Outperformance and represents the amount over and above the last EPRA NAV that gave rise to entitlement to shares under the Management Stock Plan.

Once both thresholds are reached, the amount to be allocated to the Management Stock Plan for the year (bonus) will be the lower of the following:

(x) 10% of the annual shareholder return once this exceeds 8%, and 15% of the shareholder return if the annual shareholder return is over 12%; or

(y) 20% of the High Watermark Outperformance.

5.13 Current assets and liabilities

The Group classifies its assets and liabilities as current and non-current in the consolidated statement of financial position. To this end, current assets and current liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be realized in, or are intended for sale or consumption in, the Group's normal operating cycle, when they are held primarily for the purpose of being traded, when they are expected to be realized within twelve months after the consolidated statement of financial position date, or when they constitute cash or a cash equivalent, unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the consolidated statement of financial position t date.

- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, when they are held primarily for the purpose of being traded, when they are due to be settled within twelve months after the consolidated statement of financial position date, or when the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the consolidated statement of financial position date.

- Derivative financial instruments not held for trading are classified as current or non-current according to the period of maturity or periodic settlement.

5.14 Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the Group's highest operating decision-making body to determine how to allocate resources to the segment and assess its performance, for which separate financial information is available.

5.15 Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by Group companies.

5.16 Environment

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations.

Expenses incurred in connection with these environmental activities are recognized as other operating expenses in the year in which they are incurred. Nonetheless, the Group's business activities do not have significant environmental impact.

5.17 Consolidated cash flow statements

Consolidated statements of cash flow are prepared using the direct method and the terms used are defined as below:

1. Cash flows: Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to insignificant risk of changes in value.

2. Operating activities: Ordinary activities undertaken by companies making up the consolidated group, and all other activities that cannot be classified as investing or financing activities.

3. Investing activities: The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

4. Financing activities: Activities that result in changes in the size and composition of the equity and borrowings of the Group that are not operating activities.

6. Segment reporting

a) Basis of segmentation

The Group's management has segmented its activity into four lines of business according to the type of assets acquired and managed:

- Shopping malls;

- Tertiary office buildings;

- Tertiary industrial and/or logistics units; and

- Properties leased to BBVA.

Any revenue or expense that cannot be attributed to a specific line of business or relate to the entire Group are attributed to the Parent as a "Corporate unit/Other", as are the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) and the Group's consolidated financial statements.

The profits of each segment, and each asset within each segment, are used to measure performance as the Group considers this information to be the most relevant when evaluating the segments' results compared to other groups operating in the same businesses.

The Group operated solely in Spain during the period of nine months and seven days ended 31 December 2014.

b) Basis and methodology of business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data. The segments follow the same accounting policies as the Group, which are described in Note 5.

Segment revenue relates to ordinary revenue directly attributable to the segment plus the proportion of the general revenue of the Group that may be reasonably allocable to it. Ordinary revenue of each segment does not include interest or dividend income, gains on the disposal of investment property, debt recoveries or cancellation.

Segment expenses are calculated as the directly attributable expenses incurred in the operating activities, plus the corresponding proportion of the expenses that are reasonably allocable to the segment.

Each segment's result is presented before any adjustment for non-controlling interests.

Segment assets and liabilities are those directly related to the operation of the segment plus those that are directly attributable to the segment based on the same criteria as indicated above. Segment assets and liabilities include the share of joint ventures. Segment liabilities do not include income tax payable.

Segment reporting

Segment information about these businesses at 31 December 2014 is presented below.

	Thousands of euros					
	Office buildings	BBVA branches	Shopping centers	Logistics	Corporate unit	Group total
Revenue from non-Group customers						-
Rental income	3,898	44,242	7,631	845	-	56,616
Total ordinary income	3,898	44,242	7,631	845	-	56,616
Other income	-	-	380	-	1	381
Employee benefits expense	-	(43)	-	-	(3,036)	(3,079)
Operating expenses	(326)	(12,554)	(1,791)	(39)	(1,303)	(16,013)
Gains/(losses) on disposal of assets	-	126	-	-	-	126
Depreciation and amortization	-	(14)	(14)	-	(7)	(35)
Negative goodwill arising from business combinations	-	7,138	-	-	109	7,247
Operating profit/(loss)	3,572	38,895	6,206	806	(4,236)	45,243
Change in fair value of investment property	(3,000)	38,751	14,368	(648)	-	49,471
Net finance income/(expense)	(445)	(17,967)	1	-	329	(18,082)
Changes in the value of derivative financial instruments	-	(25,920)	-	-	-	(25,920)
Profit/(loss) before tax	127	33,759	20,575	158	(3,907)	50,712
Income tax	-	(992)	-	-	(50)	(1,042)
Profit/(loss) for the period	127	32,767	20,575	158	(3,957)	49,670

	Thousands of euros					
	Office buildings	BBVA branches	Shopping centers	Logistics	Corporate unit	Group total
Investment property	215,990	1,407,820	281,054	65,070	-	1,969,934
Non-current financial assets-	3,981	274,249	2,578	346	38	281,192
Derivatives	-	*261,689*	-	-	-	*261,689*
Other financial assets	*3,981*	*12,560*	*2,578*	*346*	*38*	*19,503*
Deferred tax assets	-	9,369	-	-	-	9,369
Other non-current assets	-	66	767	-	210	1,043
Non-current assets	**219,971**	**1,691,504**	**284,399**	**65,416**	**248**	**2,261,538**
Trade and other receivables	171	658	1,711	127	673	3,340
Other current financial assets	757	31	-	3	125,000	125,791
Other current assets	2,826	16,505	4,049	1,765	1,027	26,172
Current assets	**3,754**	**17,194**	**5,760**	**1,895**	**126,700**	**155,303**
Total assets	**223,725**	**1,708,698**	**290,159**	**67,311**	**126,948**	**2,416,841**
Long-term bank borrowings	69,167	958,175	-	-	-	1,027,342
Other non-current liabilities	2,185	38,656	3,890	1,199	476	46,406
Non-current liabilities	**71,352**	**996,831**	**3,890**	**1,199**	**476**	**1,073,748**
Current liabilities	**5,104**	**23,504**	**1,992**	**1,409**	**2,405**	**34,414**
Total liabilities	**76,456**	**1,020,335**	**5,882**	**2,608**	**2,881**	**1,108,162**

As the Group was incorporated in 2014, all investments in investment property (the Group's primary asset) are recognized as additions in 2014.

a) Geographical segment reporting

For the purposes of geographical segment reporting, segment revenues are grouped according to the geographical location of the assets. Segment assets are also grouped according to their geographical location.

The following tables summarizes ordinary income and non-current investment property for each of the assets held by the Group by geographical area:

	Thousands of euros			
	Ordinary income	%	Investment properties	%
Madrid	12,875	22.7	515,636	26.2
Galicia	10,892	19.2	375,217	19.0
Catalonia	7,116	12.6	272,024	13.8
Basque Country	5,055	8.9	177,764	9.0
Valencia	4,149	7.3	126,243	6.4
Castile-Leon	3,343	5.9	98,216	5.0
Andalusia	3,293	5.8	98,862	5.0
Rest of Spain	9,893	17.5	305,972	15.5
Total	**56,616**	**100.0**	**1,969,934**	**100.0**

b) Main customers

The table below lists the lessees from which the most rental has been received at 31 December 2014, and the primary characteristics of each of them:

Position	Name	Building type	% of total rental income	% accum.	Maturity	Segment
1	BBVA	Branch offices	75.03	75.03	2040	BBVA branches
2	BBVA	Flagship buildings	3.12	78.14	2029	BBVA branches
3	VESTAS	Offices	1.79	79.93	2016	Office buildings
4	AXA	Offices	1.60	81.53	2025	Office buildings

7. Investment property

Details of and movements in items included in this account in the consolidated statement of financial position are as follows:

	Thousands of euros
Business combination additions	1,369,069
Additions during the period	551,394
Changes in value of investment property	49,471
Balances at 31 December 2014	**1,969,934**

Investment property is recognized at fair value. Gains recognized in the consolidated income statement on measuring investment property at fair value total €49,471 thousand.

Investment property comprises: 880 branches and five buildings leased in their entirety to BBVA, five office buildings, one shopping mall, one hotel and four logistics units.

Additions and assets acquired through business combinations in 2014 are as follows:

Type of asset	Name	Thousands of euros	
		Acquisition cost	Fair value
Business combination:			
Offices	BBVA branches	1,369,069	1,407,820
Additions:			
Shopping mall	Marineda City shopping mall	259,855	277,120
Shopping mall	Carris Marineda hotel	6,831	3,934
Office building	World Trade Center Almeda Park 6	47,700	47,470
Office building	Edificio Sanchinarro T2	69,150	66,090
Office building	Edificio Sanchinarro T4	21,355	17,940
Office building	Edificio Sanchinarro T7	41,693	47,100
Office building	World Trade Center Almeda Park 8	39,092	37,390
Logistics units	Plaza Zaragoza logistics center	11,163	11,050
Logistics units	Almussafes Valencia logistics unit	12,686	12,490
Logistics units	Transportes Getafe logistics center	13,032	12,790
Logistics units	Vitoria logistics center	28,837	28,740
		1,920,463	**1.969.934**

At 31 December 2014, the Group had pledged real estate assets totaling €1,501,266 thousand to secure various loans and derivative financial instruments, the balances of which at 31 December 2014 were €1,009,756 thousand and €53,407 thousand, respectively (see Note 13). The Group holds no rights of use, seizure or similar situations with regard to its investment property.

At 31 December 2014, all properties included in "Investment property" are insured.

At 31 December 2014, the Group had a building replacement commitment corresponding to the BBVA project, as per clause 20 of the general terms and conditions of the lease agreement. Pursuant to this commitment, 42 BBVA branch offices will be replaced in 2015 by 45 other branch offices owned by BBVA. The principles regulating this replacement process are that the lease terms and conditions, including the rent, will remain unchanged, and the market value as calculated by an independent valuer, will be the same.

Fair value measurement and sensitivity

All investment property under lease or earmarked for lease through operating leases (leased asset business segment) are classified as investment property.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property so that the fair value reflects the actual market conditions of the investment property at that date. The fair value is determined by reference to the appraisals carried out each year by independent valuers.

The market value of the Group's investment property at 31 December 2014, calculated on the basis of appraisals carried out by Savills Consultores Inmobiliarios, S.A. – independent appraisers not related to the Group – amounted to €2,231,623 thousand (this appraisal takes into account the value of the derivative embedded in the rental of the lease agreement with BBVA of €261,689 thousand). The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom, and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The method used to calculate the market value of investment property, except the BBVA portfolio, involves drawing up ten-year projections of income and expenses for each asset, adjusted at the reporting date using a market discount rate. The residual amount at the end of Year 10 is calculated by applying an exit yield or cap rate to the net income projections for Year 11. The market values obtained are analyzed by calculating and considering the capitalization of the returns implicit in these values. The projections are intended to reflect the best estimate of future income and expenses from the investment properties. Both the exit yield and discount rate are determined taking into account the national market and institutional market conditions.

The method used by Savills to value the BBVA portfolio analyzes each property individually, without making any adjustments for inclusion in a large portfolio of properties. For each property, a capitalization rate has been assumed for the estimated market rent and subsequently adjusted on the basis of the following parameters:

- Term of the lease agreement and creditworthiness of the lessee;
- Location of the premises within the city (downtown, metropolitan area or suburbs);
- Immediate vicinity of the property;
- Level of upkeep of the property (outside and inside);
- Above and below-ground distribution of the floor area;
- Façade on one street or more than one (corner, three-sided); and
- Lease situation with respect to current market rent.

In any event, the situation of the rental property market could lead to material differences between the fair value of the Group's investment property and their effective realizable values.

Fees paid by the Group to valuers for the appraisals at 31 December were as follows:

	Thousands of euros
Valuation services	110
Total	**110**

Breakdown of fair value of investment properties

Details of the assets measured at fair value and the classification thereof are as follows:

	Thousands of euros			
	2014			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurement	1,969,934			1,969,934
Investment property				
BBVA branches				
- Land	481,285			481,285
- Buildings	926,535			926,535
Shopping malls				
- Land	14,396			14,396
- Buildings	266,658			266,658
Office buildings				
- Land	103,264			103,264
- Buildings	112,726			112,726
Industrial units				
- Land	16,353			16,353
- Buildings	48,717			48,717
Total assets measured at fair value on a recurrent basis	1,969,934			1,969,934

No assets were reclassified from one level to another during the period.

At 31 December 2014, the gross surface areas and occupancy rates of the assets by line of business were as follows:

31/12/2014	Square meters						Occupancy rate (%)
	Gross leasable area						
	La Coruña	Madrid	Álava	Barcelona	Other	Total	
BBVA branches	13,293	64,619	2,935	39,189	254,144	**374,180**	100.00
Offices	-	34,175	-	29,078	-	**63,253**	79.20
Shopping malls	106,276	-	-	-	-	**106,276**	90.62
Industrial units	-	16,242	72,717	-	47,377	**136,336**	100.00
Total surface area	**119,569**	**115,036**	**75,652**	**68,267**	**301,521**	**680,045**	**96.60**
% weight	**17.58**	**16.92**	**11.12**	**10.04**	**44.34**	**100.00**	

The main assumptions used to calculate the fair value of investment property were as follows:

	Net initial yield	Discount rate
BBVA branches	5.33%	(*)
Offices	6.17% - 7.9%	8% - 9%
Shopping mall	5.62%	7%
Hotel	6.69%	9%
Industrial units	8.11% - 9.37%	10% - 11%

(*) Not applicable, performed by direct capitalization of earnings

The effect of a one-quarter of one point change in the required capitalization rates, calculated as rent as a percentage of the market value of the assets, in the consolidated assets and in the consolidated income statement, would be as follows:

	Thousands of euros	
	Assets	Consolidated net profit/(loss)
Increase in the rate of return of one-quarter of one percent	(96,355)	(96,355)
Decrease in the rate of return of one-quarter of one percent	105,549	105,549

Details of “Change in value of investment property” in the consolidated income statement are as follows:

Type of asset	Name	Thousands of euros
Offices	BBVA branches	38,752
Shopping mall	Marineda City shopping mall	17,264
Shopping mall	Carris Marineda hotel	(2,897)
Office building	World Trade Center Almeda Park 6	(230)
Office building	Edificio Sanchinarro T2	(3,060)
Office building	Edificio Sanchinarro T4	(3,415)
Office building	Edificio Sanchinarro T7	5,407
Office building	World Trade Center Almeda Park 8	(1,702)
Logistics units	Plaza Zaragoza logistics center	(113)
Logistics units	Almussafes Valencia logistics unit	(196)
Logistics units	Transportes Getafe logistics unit	(242)
Logistics units	Vitoria logistics center	(97)
		49,471

8. Operating leases

8.1 Operating leases – Lessee

The Group leases two offices through operating leases for its own use, which are owned by Rreef Investment Gmbh Sucursal en España at December 2014.

The operating lease payments expensed in 2014 were as follows:

	Thousands of euros
Minimum lease payments (Note 17.b)	63
	63

8.2 Operating leases – Lessor

At 31 December 2014, the Group leases out the BBVA branches, office buildings, shopping mall and logistics units to third parties through operating leases.

The occupancy rates of the leased buildings at 31 December 2014 were as follows:

	Occupancy rate (%)
BBVA branches	100.00
Office buildings	79.20
Shopping mall	90.62
Industrial units	100.00

Ordinary income and the fair value of each asset are as follows:

	Thousands of euros	
	Ordinary income (*)	Fair value
BBVA branches	44,242	1,407,820
Marineda City shopping mall	7,485	277,120
Carris Marineda hotel	146	3,934
World Trade Center Almeda Park 6	1,260	47,470
Edificio Sanchinarro T2	1,143	66,090
Edificio Sanchinarro T4	336	17,940
Edificio Sanchinarro T7	1,011	47,100
World Trade Center Almeda Park 8	148	37,390
Plaza Zaragoza logistics center	424	11,050
Almussafes Valencia logistics unit	317	12,490
Transportes Getafe logistics unit	89	12,790
Vitoria logistics center	15	28,740
Total	**56,616**	**1,969,934**

(*) The income shown in the table above refers to the rental income of the properties accrued since they were included in the Group's scope of consolidation at 31 December 2014. The annualized amount of rental income would be approximately €124,717 thousand (only the estimate of fixed rental income of the establishments is included in the calculation)

The lease agreements entered into by the Group and its customers include a fixed rent, and where applicable, a variable rent linked to the lessee's performance.

Future minimum lease payments under non-cancellable operating leases (calculated at the nominal amount) are as follows:

	Thousands of euros
Up to a year	128,854
1 to 5 years	451,005
Over 5 years	1,880,329
	2,460,188

9. Current and non-current financial assets

The breakdown of this consolidated statement of financial position item by nature of transaction is as follows:

Classification of financial assets by category:

	Thousands of euros
Non-current:	
At fair value-	
Derivative embedded in BBVA lease agreement	261,689
At amortized cost-	
Deposits and guarantees	19,503
	281,192
Current:	
At amortized cost-	
Other financial assets	125,791
Trade and other receivables	3,340
	129,131

The carrying amount of financial assets recognized at cost or amortized cost does not differ significantly from their fair value.

"Derivatives" includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease agreement with BBVA to revise rents annually (see Note 3). The variation in this derivative during 2014 was €25,733 thousand, recognized under "Change in fair value of financial instruments" in the accompanying 2014 consolidated income statement. The measurement approach used is described in Note 3 and is applicable to Level two of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

Sensitivity to fluctuations of 50 percentage points in the inflation curves is analyzed below:

	Thousands of euros	
Scenario	Assets	Consolidated profit/(loss) before tax
+50 bps	68,186	68,186
-50 bps	(45,759)	(45,759)

"Deposits and guarantees" primarily includes the guarantees provided by lessees as security amounting to €19,503 thousand, which the Group has deposited with the housing authority (*Instituto de la Vivienda*) in each region. At 31 December 2014, guarantees provided by lessees as security amounted to €21,498 thousand, recognized under "Other financial liabilities – Non-current" on the liabilities side of the accompanying consolidated statement of financial position.

"Other financial assets" comprises a €125,000 thousand deposit opened with a financial institution on 30 December 2014, which accrues interest at a rate of 1.15%. Although the deposit matures in 2019, the conditions thereof stipulate that the Parent can close it early. The Parent's directors consider that the entire balance of the deposit will be withdrawn before 31 December 2015. It has therefore been classified as a current asset in the accompanying consolidated statement of financial position at 31 December 2014.

Classification of financial assets by maturity:

The classification of financial assets by maturity is as follows:

	Thousands of euros			
	Less than 1 year	Over 5 years	Undetermined	Total
Derivative embedded in BBVA lease agreement	-	261,689	-	261,689
Deposits and guarantees	-	-	19,503	19,503
Other financial assets	125,791	-	-	125,791
Trade and other receivables	3,340	-	-	3,340
Total financial assets	**129.131**	**261,689**	**19,503**	**410.323**

10. Trade and other receivables

"Trade and other receivables" includes the following:

	Thousands of euros
Trade debtors and notes receivable	2,709
Other receivables from public authorities (Note 16)	708
Impairment of trade receivables	(77)
	3,340

"Trade debtors and notes receivable" in the accompanying consolidated statement of financial position at 31 December 2014 mainly includes the balances receivable from the leasing of investment property. In general these receivables are interest free and the terms of collection range from immediate payment on billing to payment at 30 days, while the average collection period is approximately four days.

At 31 December 2014, a breakdown by age of overdue receivables not considered impaired is as follows:

	Thousands of euros
Less than 30 days	61
31 to 60 days	-
61 to 90 days	129
Over 90 days	105
	295

At 31 December 2014, no collection rights had been transferred to financial institutions.

The Group periodically analyzes the risk of insolvency of its accounts receivable by updating the related provision for impairment losses. The Group's directors consider that the amount of trade and other receivables approximates their fair value.

Movement in the provision for impairment and bad debt in 2014 was as follows:

	Thousands of euros
Charges made in the period	(77)
Balance at 31 December	**(77)**

The majority of impaired receivables are overdue by more than five months.

Details of the concentration of customers (customers with which a significant share of transactions are performed) are included in the segment information in Note 6.

11. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and in banks and short-term deposits with an original maturity of three months or less. The carrying amount of these assets is equal to their fair value.

At 31 December 2014, the balance of "Cash and cash equivalents" is freely available, except the amount included in reserves to cover payment of a quarterly instalment of the senior syndicated mortgage loan, of €2,038 thousand.

At 31 December 2014, the balance of "Cash and cash equivalents" is freely available, except the amount included in reserves to cover payment of a quarterly instalment of the senior syndicated mortgage loan, of €2,038 thousand.

12. Equity

The composition of and movements in equity are disclosed in the consolidated statement of changes in equity.

12.1 Share capital

At 31 December 2014, the share capital of Merlin Properties SOCIMI, S.A., amounted to €129,212 thousand, represented by 129,212,001 shares of €1 par value each, fully subscribed and paid. All shares are of the same class and confer the holders thereof the same rights. All the Company's shares can be publicly traded and are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

The Parent was incorporated in Spain pursuant to the Corporate Enterprises Act on 25 March 2014 through the issuance of 60,000 registered shares of €1 par value each. On 5 June 2014, the partners made a cash contribution of €540 thousand as a "Contributions from equity holders or owners".

On 30 June 2014, the Parent carried out a public offering of shares to increase capital by €125,000 thousand, with a share premium of €1,125,000 thousand, issuing 125,000,000 new shares of €1 par value each, fully subscribed and paid.

In order to meet demand for shares under the Greenshoe option, on 14 July 2014, the Parent carried out a second share issue of €4,152 thousand, with a share premium of €37,368 thousand, issuing 4,152,001 new shares of €1 par value each, fully subscribed and paid.

	Number of shares
Incorporation of the Parent	60,000
Capital increase on 30 June 2014	125,000,000
Capital increase on 14 July 2014	4,152,001
Shares at period end	**129,212,001**

At 31 December 2014, the significant shareholders of Merlin Properties SOCIMI, S.A. with direct or indirect ownership interests exceeding 3% of share capital, are as follows:

	Shares			% of capital
	Direct	Indirect	Total	
UBS Group AG	-	15,886,656	15,886,656	12.295%
Mainstay Marketfield Fund	12,895,055	-	12,895,055	9.980%
Marketfield Asset Management LLC	-	12,761,227	12,761,227	9.876%
EJF Capital LLC	-	6,732,662	6,732,662	5.211%
Friedman, Emanuel J.	-	6,732,662	6,732,662	5.211%
Monarch Master Funding 2 (Luxembourg) S.A.R.L.	5,000,000	-	5,000,000	3.870%
Credit Suisse Group	-	6,426,926	6,426,926	4.974%
EJF Debt Opportunities Master Fund, LP	4,000,000	-	4,000,000	3.096%

12.2 Share premium

The Consolidated Text of the Corporate Enterprises Act expressly permits the use of the share premium to increase capital and establishes no specific restrictions as to its use.

This reserve is freely distributable provided that the Company's capital does not fall below share capital as a result of it being distributed.

12.3 Other reserves

Legal reserve

The legal reserve will be set up in accordance with Article 274 of the Consolidated Text of the Corporate Enterprises Act, which states that an amount equal to 10% of profit for the year shall be transferred to the legal reserve until this reserve reaches at least 20% of capital.

This reserve cannot be distributed, and can only be used to offset losses if no other reserves are available. Any amount of the reserve used for this purpose must be restored with future profits.

At 31 December 2014, the Group had not appropriated to this reserve the minimum established in the Consolidated Text of the Corporate Enterprises Act because 2014 was the first year of activity of Merlin Properties SOCIMI, S.A.

The legal reserve of companies which have chosen to avail themselves of the special tax regime established in Act 11/2009, of 26 October, must not exceed 20% of share capital. These companies' bylaws cannot create any other restricted reserve.

Other reserves

This reserve primarily corresponds to the costs of incorporating the Parent and the capital increases in 2014, which total €30,475 thousand.

12.4 Capital management

The Group's aim vis-à-vis capital management is to ensure it is able to continue operating as a going concern in such a way as to safeguard returns for shareholders and benefit other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital.

In line with the practice of other companies in the sector, the Group controls its capital structure through the leverage ratio, which is calculated as net financial debt over equity. Net debt is determined as the sum of financial liabilities, less cash and cash equivalents. Total capital is determined as the sum of equity plus net financial debt.

	Thousands of euros
Total financial debt	1,063,574
Less – Cash and cash equivalents and Other current financial assets	(151,841)
Net debt	911,733
Equity	1,308,673
Total capital	**2,220,406**
Debt-to-equity ratio	41.06%

12.5 Earnings per share

Earnings per share

Earnings per share are calculated by dividing net profit attributable to common equity holders of the Parent by the number of outstanding shares during the period, excluding treasury stock.

Details of the calculation of earnings/(losses) per share are as follows:

Net profit for the period attributable to equity holders of the Parent (thousands of euros)	49,670
Number of outstanding shares (thousands)	129,212
Earnings per share (euros)	**0.38**

Basic

Basic earnings per share are calculated by dividing net profit attributable to common equity holders of the Parent by the weighted average number of outstanding shares during the period, excluding treasury stock.

Details of the calculation of basic earnings/(losses) per share are as follows:

Net profit for the period attributable to equity holders of the Parent (thousands of euros)	49,670
Weighted average number of shares outstanding (thousand)	85,564
Basic earnings per share (euros)	**0.58**

The average number of ordinary shares outstanding is calculated as follows:

	Number of shares
Ordinary shares (incorporation of the Group)	60,000
First capital increase	125,000,000
Second capital increase	4,152,000
Average effect of outstanding shares	(43,648,340)
Weighted average number of ordinary shares outstanding at 31 December 2014 (thousands of shares)	**85,563,660**

Diluted

Diluted earnings per share are calculated by adjusting the profit attributable to equity holders of the Parent by the weighted average common stock outstanding in respect of all dilutive effects of potential ordinary shares, i.e., as if all potentially dilutive ordinary shares had been converted.

The Parent does not have different classes of potentially dilutive ordinary shares.

12.6 Valuation adjustments

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges. Movement in this heading in 2014 was as follows:

	Thousands of euros
Changes in the fair value of hedges during the period (Note 13.2)	(2,636)
Closing balance	**(2,636)**

13. Current and non-current financial liabilities

At 31 December 2014, current and non-current liabilities were as follows:

	Thousands of euros
Non-current:	
At amortized cost	
Senior syndicated mortgage loans	930,358
Syndicated loan arrangement costs	(24,323)
Total, syndicated mortgage loan	**906,035**
Mortgage loan	69,000
Mortgage loan arrangement costs	(1,100)
Total, mortgage loan	**67,900**
Total amortized cost	**973,935**
At fair value	
Financial derivative instruments	53,407
Total at fair value	**53,407**
Total, non-current	**1,027,342**
Current:	
At amortized cost	
Senior syndicated mortgage loans	9,491
Mortgage loan	1,318
Total, current	**10,809**

There is no material difference between the carrying amount and fair value of financial liabilities at amortized cost.

13.1 Mortgage loans

The breakdown of mortgage loans at 31 December 2014 is as follows:

	Thousands of euros				
	Bank borrowings				
	Limit	Loan arrangement costs	Drawn down: Long term	Drawn down: Short term	Current interest
Senior syndicated mortgage loan	939,756	(24,323)	930,358	9,398	93
Mortgage loan	70,000	(1,100)	69,000	1,000	318
Total payables	**1,009,756**	**(25,423)**	**999,358**	**10,398**	**411**

Senior syndicated mortgage loan

On 30 December 2014, the Group formalized a novation agreement to modify the senior syndicated loan taken out on 29 July 2010 by Inversiones Inmobiliarias SOCIMI, S.A., the agent bank of which is Deutsche Bank.

Pursuant to this agreement, the senior syndicated loan, which at the novation date totaled €776,547 thousand, was increased to €939,756 thousand. Equally, the 2017 maturity date was extended to 24 September 2024. The loan bears interest at the 3M Euribor rate, plus a spread of 1.75%.

The funds obtained through the loan will be partially used to cancel early the mezzanine syndicated loan taken out by Tree Inversiones Inmobiliarias SOCIMI, S.A. and the hedging instruments covering this loan, amounting to €50,478 thousand and €1,883 thousand, respectively. As a result of these cancellations, the Group recognized a finance cost in the 2014 consolidated income statement of €2,019 thousand, due to the early cancellation charge for the mezzanine syndicated mortgage loan. The recycling through profit and loss of the valuation adjustments to Tree Inversiones Inmobiliarias SOCIMI, S.A.'s equity did not have a material impact on the Group's consolidated income statement as these valuation adjustments were included in the equity acquired through the business combinations (see Note 3).

Pursuant to IAS 39, the Group has assessed whether the novation of the original loan agreement (senior syndicated mortgage loan) involves a substantial change requiring it to be treated as a cancellation of the original loan and the refinancing recognized as new debt. In accordance with the aforementioned standard, the Group therefore considered whether there had been a substantial change in the terms and conditions of lending, concluding that there had not, as the 10% threshold stipulated in the standard had not been reached.

Loan arrangement costs of €13,952 thousand were also incurred, recognized under "Non-current bank borrowings" in the accompanying consolidated statement of financial position.

The finance includes commitments to maintain certain coverage ratios – standard in this type of real estate company – such as the loan-to-value ratio, the ratio of the subsidiary's income used to service the debt (interest coverage ratio, ICR), and a minimum credit rating of BBVA from ratings agencies. The Parent's directors have confirmed that these ratios were met at 31 December 2014 and do not forecast that they will not be fulfilled in forthcoming years.

Mortgage loan

On 2 October 2014, the Group obtained a €70,000 thousand mortgage loan from Banco Santander secured by the office buildings in Madrid (Edificio Sanchinarro T2, T4 and T7) (see Note 7). The loan bears interest at the Euribor rate, plus a spread of 185 pp. The loan falls due on 7 October 2021 and will be repaid in fixed quarterly instalments of €250 thousand.

The finance cost of the (senior and mortgage) loans totaled €13,395 thousand and is recognized in the accompanying 2014 consolidated income statement.

At 31 December 2014, the loan arrangement costs were recognized as a reduction in "Bank borrowings". In 2014, the Parent expensed €2,966 thousand associated with this debt under "Finance costs" in the accompanying consolidated income statement (see Note 17.d).

The breakdown by maturity of these loans is as follows:

Maturity	Thousands of euros	
	Senior Syndicated mortgage loan	Mortgage loan
2015	9,398	1,000
2016	9,398	1,000
2017	9,398	1,000
2018	9,985	1,000
2019	11,747	1,000
Over 5 years	889,830	65,000
	939,756	**70,000**

13.2 Derivatives

Details of financial derivative instruments are as follows:

	Thousands of euros
Non-current	
Interest rate derivatives	(62,546)
Inflation derivatives	9,139
	(53,407)

To measure the fair value of the interest rate and inflation derivatives, the Company discounts cash flows based on the underlyings determined by the euro interest rate curve as per market conditions on the measurement date.

These financial instruments are classified as Level 2 as per IFRS 7.

Details of the financial derivative instruments in the consolidated statement of financial position at 31 December 2014 are as follows:

	Thousands of euros	
	Financial asset	Financial liability
Non-current		
Interest rate derivatives	-	62,546
Inflation derivatives	-	(9,139)
Derivative embedded in BBVA lease agreement (Note 9)	261,689	-
Total derivatives recognized	**261,689**	**53,407**

The interest rate and inflation financial derivative instruments are primarily from the business combination in 2014 through which Tree Inversiones Inmobiliarias SOCIMI, S.A. joined the Merlin Group. At Merlin Group level, the change in fair value of these financial instruments since the date of the business combination has been €2,479 thousand, €1,455 thousand of which was recognized in equity as valuation adjustments. The remainder was taken to consolidated profit and loss. The Group also took out other financial derivative instruments in 2014, the value of which was €1,267 thousand at 31 December 2014. €1,181 thousand of this amount was recognized in equity as a valuation adjustment, and the remainder taken to consolidated profit and loss.

The derivatives held by the Group at 31 December 2014 and the fair values thereof at that date are as follows (in thousands of euros):

		Thousands of euros					
	Contractual interest rate	Fair value at 31/12/2014	Notional amount				
			2015	2016	2017	2018	Thereafter
Interest rate derivatives	3.46%-0.65%	(62,546)	1,002,406	991,009	63,000*	63,000*	63,000*
Inflation derivative	3.14%	9,139	79,834	82,500	-	-	-
		(53,407)	**1,082,240**	**1,073,509**	**63,000**	**63,000**	**63,000**

* In January 2015, the Company arranged a number of interest rate derivatives to replace the interest rate derivatives hedging the senior syndicated mortgage loan which mature in September 2017. These new derivatives, described later in these notes, mature in September 2024.

The Group has opted for hedge accounting, suitably designating the hedging relationships in which these financial instruments are hedging instruments of the financing used by the Group. In this manner, the Group has neutralized flow variations stemming from interest payments and fixed the rate to be paid for said financing. These hedging relationships are, cumulatively, highly effective prospectively and retrospectively, starting at their designation date for certain derivatives.

The Group requested to file tax under the special regime for listed real estate investment companies (SOCIMI tax regime) pursuant to Act 16/2012 of 27 December, regulating SOCIMIs (SOCIMI Act), applicable to the Group and its subsidiaries from 1 January 2014; 1 January 2013 for Tree Inversiones Inmobiliarias, SOCIMI, S.A. As a result of this, the Group recognized a total of €(2,636) thousand under equity at 31 December 2014 corresponding to the fair value of the derivatives fulfilling the requirements thereof, without considering any tax effect. It also recognized €(1,024) thousand under “Change in fair value of financial instruments” in the consolidated income statement as a result of the derivative financial instruments not meeting the requirements to be treated as hedges.

In 2014, finance costs were recognized for settlement of the new financial derivative instruments of €86 thousand.

Moreover, as a consequence of the additional loan principal refinanced, the Group arranged a number of senior interest rate swap (IRS) derivative instruments to hedge the entire debt. The conditions of these new derivatives further to the previous ones are:

- Notional amount: €261,122 thousand
- Maturity: 2017
- Average interest rate: 0.13%

Several senior IRS derivative instruments were also arranged to hedge the loan from the date the existing derivatives mature to the end of the loan term. The conditions of these derivatives are as follows:

- Notional amount: €913,912 thousand
- Date arranged: 2017
- Maturity: 2024
- Average interest rate: 0.96%

These derivative financial instruments had a value of zero at 31 December 2014.

On adopting IFRS 13, the Group adjusted the measurement techniques for calculating the fair value of its derivatives. The Group includes a bilateral credit risk adjustment to reflect both the own credit risk and the counterpart party risk in the measurement of the fair value of the derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by its own credit risk.

In order to calculate the fair value of the financial derivatives, the Group used generally accepted measurement techniques in the market, which account for current and future expected exposure, adjusted by the probability of default and the potential loss given default affecting the contract. The CVA (Credit Value Adjustment) or counterparty credit risk and DVA (Debt Value Adjustment) or own credit risk were therefore estimated.

Current and expected exposure in the future is estimated using simulations of scenarios of fluctuations in market variables, such as interest rate curves, exchange rates and volatilities as per market conditions at the measurement date.

Furthermore, for the credit risk adjustment, the Group's net exposure has been taken into account with regards to each of the counterparties, if the financial derivatives arranged with them are within a financial transaction framework agreement which provides for netting positions. For counterparties for whom credit information is available, the credit spreads have been obtained from the CDS (Credit Default Swaps) quoted in the market; whereas for those with no available information, references from peers have been used. The Group hired Chatham Financial Europe Ltd. to measure the fair value of the derivatives.

The impact on liabilities and profit before tax of a 50 basis point fluctuation in the estimated credit risk rate would be as follows:

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit before tax
5% rise in credit risk rate	(10,813)	(10,813)	-
5% reduction in credit risk rate	3,088	3,088	-

The total valuation of the derivatives entered into by the Group at 31 December 2014 was €53,407 thousand.

14. Other current and non-current liabilities

Details of this heading at 31 December 2014 are as follows:

	Thousands of euros	
	Non-current	Current
Other provisions	476	-
Guarantees and deposits received	21,498	-
Deferred tax liabilities	24,432	-
Other payables	-	190
Other current liabilities	-	38
Total	**46,406**	**228**

"Guarantees and deposits received" primarily comprise the amounts deposited by lessees to secure leases, which will be reimbursed at the end of the lease term.

The Parent and its subsidiaries are subject to the SOCIMI tax regime. Under this regime, gains from the sale of assets are taxed at 0%, provided that certain requirements are met (basically, the assets must have been held by the SOCIMI for at least three years). Any gains from the sale of assets acquired prior to joining the SOCIMI tax regime will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the SOCIMI owned them. Any gains generated prior to joining the SOCIMI tax regime will be taxed at the general rate, while a rate of 0% will be applied for the other years. The only assets owned by the Group acquired prior to joining the tax regime by the subsidiary holding them are those owned by Tree Inversiones Inmobiliarias SOCIMI, S.A. (the acquisitions were in 2009 and 2010 and Tree Inversiones Inmobiliarias SOCIMI, S.A. joined the SOCIMI tax regime in 2013). In this regard, the Parent's directors performed an estimate based on the years when these assets were disposed of, estimating the tax rate applicable to the gains (calculated in function of the assets' fair value obtained from expert appraisals at the date of the business combination and at 31 December 2014). As a result, a deferred tax liability of €25,091 thousand was recognized in the business combination (see Note 3) corresponding to the estimated tax burden in the event the assets are sold, as per the established plan. The deferred tax liability totaled €24,432 thousand at 31 December 2014, adjusted pursuant to changes in the value of the investment property and the reductions in the general tax rate from 30% to 28% (2015) and to 25% (2016 and thereafter). The €659 thousand reduction in the deferred tax liability was recognized under "Income tax" in the 2014 consolidated income statement.

The Parent's directors do not envisage disposing of any of the investment property acquired after the Parent and its subsidiaries joined the SOCIMI tax regime within three years, and have therefore not recognized the deferred tax liability corresponding to the changes in fair value since the assets were acquired (see Note 7) as the applicable tax rate is 0%.

15. Trade and other payables

Details of this heading at 31 December 2014 are as follows:

	Thousands of euros
Current	
Payable to suppliers	19,058
Remuneration payable	1,869
Current tax liabilities (Note 16)	75
Other payables to public authorities (Note 16)	1,740
Advances from customers	635
Total	**23,377**

The carrying amount of the trade payables is similar to their fair value.

The information required under Additional Provision Three of Law 15/2010, of 5 July, is as follows: (thousands of euros)

	Payments made and outstanding at the reporting date	
	Initial	**%**
Payments made within the statutory limit	46,630	99.79
Other	100	0.21
Total payments in the period	**46,730**	
Weighted average days past due	-	
Deferrals at the reporting date exceeding the statutory limit	-	

The figures in the preceding table on payments to suppliers refer to those whose nature makes them trade creditors because they are suppliers of goods and services. Therefore, they include the figures relating to "Payable to suppliers" under current liabilities in the consolidated statement of financial position. This item therefore includes payments for guarantee retentions, which are settled within a period that exceeds the statutory limit to guarantee receipt of the work within the periods and according to the quality initially agreed upon with the supplier.

The weighted average late payment days is calculated by multiplying each supplier payment in the period over the statutory payment period by the number of days over the period and dividing the sum of these amounts by the total amount of payments made in the period past the statutory limit.

The maximum statutory payment period applicable to the Company in 2014 under Act 3/2004, of 29 December, establishing measures on combating late payment in commercial transactions, is 30 days (60 days in 2013), except where a longer payment period has been agreed, which cannot exceed 60 days in any circumstances.

16. Tax situation

a) Tax receivables and payables

The main taxes receivable and payable are as follows:

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current
Accounts payable to the Treasury for withholdings	-	-	-	305
VAT	-	592	-	1,413
Tax assets	9,369	-	-	-
Corporate income tax	-	116	-	75
Payable to the Social Security	-	-	-	22
Deferred tax liabilities	-	-	24,432	-
	9,369	**708**	**24,432**	**1,815**

b) Reconciliation of accounting result and tax loss

At 31 December 2014, the tax loss was calculated as the accounting profit for the period plus the costs of incorporating the Parent company and increasing its capital, recognized directly in equity, the effect of changes in the fair value of investment property, and temporary differences for the existing limitations. At the reporting close, the Group did not recognize a deferred tax asset for this item.

The reconciliation of the accounting profit to the consolidated income tax expense for the period is as follows:

	Thousands of euros
Profit before tax	50,712
Permanent differences:	
- Capital increase expenses	(30,475)
Temporary differences:	
- Changes in the value of investment property	(10,719)
a) acquired after joining the SOCIMI tax regime	
b) acquired prior to joining the SOCIMI tax regime	(38,752)
	(49,471)
Adjusted tax base	**(29,234)**
Tax rate (0%)	-
Corporate income tax expense	-

Capital increase expenses are treated as a permanent difference because the applicable tax rate is 0%.

Temporary differences arose from the change in value of investment property (IAS 40 – Fair value model). As the Parent's directors plan and state that investment property acquired by subsidiaries already subject to the SOCIMI tax regime will not be sold within three years, the fair value adjustment in 2014 is taxed at 0% and therefore the deferred tax liability is also zero.

The directors have estimated when gains will be generated from the sale of assets acquired prior to joining the tax regime, as disclosed in Note 14. Based on this estimate, they have determined that the deferred tax liability accrued in 2014 for the increase in value of said assets is €3,562 thousand.

c) Reconciliation of accounting profit and tax expense

	Thousands of euros
Expense for increase in value of investment property (Note 16.c)	(3,562)
Expense for adjustment of tax assets based on tax rates applicable in 2015 and as from 2016	(1,615)
Income from adjusting deferred tax liabilities based on tax rates applicable in 2015 and as from 2016	4,221
Other	(86)
Total corporate income tax expense	**(1,042)**

d) Deferred tax assets recognized

At 31 December 2014, the maturity dates of tax credits for tax loss carryforwards are as follows (in thousands of euros):

	Thousands of euros	
	Tax base	Tax credit
Tax loss carryforwards:		
2009	3,945	1,183
2010	21,659	6,498
2011	11,010	3,303
Total tax loss carryforwards	**36,614**	**10,984**
Adjustment for change in tax rate		**(1,615)**
Total capitalized deferred tax assets		**9,369**

Movement in deferred tax assets during 2014 was primarily due to the addition of €11,125 thousand from the business combination described in Note 3 and the adjustment to the tax rate. As a result of the enactment of Corporate Income Tax Act 27/2014, of 287 November, amending, *inter alia*, the tax rates applicable as from 1 January 2015, the Group recalculated deferred tax assets and liabilities using the new tax rates introduced by said law. As a result, deferred tax assets were decreased by €1,615 thousand, primarily because of the tax rate cut.

The Group has no tax credits that had not been used or recognized at 31 December 2014.

The aforesaid deferred tax assets were recognized in the consolidated statement of financial position since the Group's directors consider that, based on the best estimates of the Company's future results, including certain tax planning measures, it is likely that these assets will be recovered.

e) Deferred tax liabilities

As indicated above, the deferred tax liabilities arise from measuring at fair value the acquired investment property from the subsidiary Tree Inversiones Inmobiliarias SOCIMI, S.A. Movements in these deferred tax liabilities were as follows:

	Thousands of euros
Business combination additions	25,091
Increase in value of investment property	3,562
Adjustment to general tax rate	(4,221)
Total corporate income tax expense	**(24,432)**

As stipulated in Note 16.b, the increase in value of investment property acquired by subsidiaries subject to the SOCIMI tax regime generate temporary differences at a tax rate of 0%, whereby no deferred tax liability has been recognized.

f) Years open to review and tax inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations has expired. At period-end 2014, the Group is open to inspection of all the taxes for which it is liable since its incorporation. The Parent's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

17. Revenue and expenses

a) Revenues

Details of ordinary revenues are provided in Note 6 alongside the segment information.

b) Other operating expenses

The breakdown of this item of the consolidated income statement is as follows:

	Thousands of euros
Non-recoverable expenses of leased properties	2,585
Overheads	986
Independent professional services	557
Travel expenses	146
Office rental	63
Insurance	41
Other	179
Costs associated with asset acquisitions and financing	11,766
Costs associated with flotation	73
Acquisition of Tree Inversiones Inmobiliarias	603
Total	**16,013**

c) Employee benefits expense and average headcount

The breakdown of employee benefits expense is as follows:

	Thousands of euros
Wages, salaries and similar expenses	2,968
Social security costs	111
Total	**3,079**

The average headcount at the various Group companies in 2014 was 20, 19 of whom were employed by the Parent.

The breakdown by category is as follows:

	2014		
	Women	Men	Total
Directors	-	2	2
Senior management	-	7	7
Managers and line personnel	2	7	9
Clerical staff	2	-	2
Total	**4**	**16**	**20**

d) Finance income and costs

The breakdown of these items in the consolidated income statement is as follows:

	Thousands of euros
Finance income:	
Interest from loans and other credits	473
	473
Finance costs:	
Interest on loans and other credits	(18,555)
Interest on financial derivatives	(25,920)
	(44,475)
Net finance expense	**(44,002)**

"Interest on loans and other credits" includes the charge for the amortization of loan arrangement costs of €2,966 thousand at 31 December 2014 applying the effective interest method to financial debt.

"Interest on financial derivatives" includes the change in value of the derivative embedded in the rental of the lease agreement with BBVA during the period (€25,733 thousand).

e) Contribution to consolidated profit

The contributions to 2014 profit by each company included in the consolidation scope are as follows:

Company	Thousands of euros)
Full consolidation:	
Merlin Properties SOCIMI, S.A.	(3,974)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	32,767
Merlin Logística, S.L.	158
Merlin Retail, S.L.	20,575
Merlin Oficinas, S.L.	127
Bosque Portfolio Management, S.L.	17
Total	**49,670**

18. Related party transactions

In addition to subsidiaries, associates and joint ventures, the Group's "related parties" are considered to be the Company's shareholders, "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control.

Details of transactions considered material given their value or relevant due to their substance between the Parent or its Group companies and the Company's directors or key management personnel are as follows:

Name or company name of director or executive	Name or company name of related party	Nature of relationship	Amount (thousands of euros)
Magic Real Estate SL	Merlin Properties Socimi SA	Magic Real Estate S.L. sublets half a floor of office space to Merlin Properties Socimi S.A. This sublease was entered into in 2013 by Magic Real Estate SL, Tree Inversiones Inmobiliarias S.A. and Bosque Portfolio Management.	43

19. Stakes held by directors and their affiliates in other companies

The directors of the Parent and their affiliates have not been in a position involving a conflict of interests that required reporting under Article 229 of the Consolidated Text of the Corporate Enterprises Act, except where indicated below:

Directors' compensation and other benefits

Salaries, per diem attendance fees and compensation of other kinds earned by members of the Parent's governing bodies totaled €1,030 thousand, as detailed below:

	Thousands of euros
Fixed and variable remuneration	1,030
Statutory compensation	
Termination benefits	
Per diem allowances	
Other	
Total	**1,030**

At 31 December 2014, executive directors had accrued an entitlement to €580 thousand of variable remuneration.

50% of these amounts will be paid 10 days after the Board of Directors authorizes the Company's 2014 financial statements for issue. The other 50% will be paid five years after the Company's financial statements are authorized for issue.

The breakdown, by board member, of the amounts disclosed above is as follows:

Board member	Type	Thousands of euros
Remuneration of board members		
Ismael Clemente Orrego	Executive Chairman	442
Miguel Ollero Barrera	Executive director	438
Donald Johnston	Independent director	30
Maria Luisa Jordá Castro	Independent director	30
Ana García Fau	Independent director	30
Alfredo Fernández Agras	Independent director	30
Fernando Ortiz Vaamonde	Independent director	30
Matthew Globawsky	Independent director	-
José García Cedrún	Independent director	-
Total		**1,030**

The Parent has no pension obligations with members of the Board of Directors beyond those applicable to other employees.

The Company has granted no advances, loans or guarantees to any of its directors.

Senior executives' compensation and other benefits

The remuneration of the Parent's senior executives and persons discharging similar duties, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in 2014 is summarized as follows:

Thousands of euros			
Number of employees	Compensation fixed and variable	Other remunera-tion	Total
7	1,671	-	1,671

At 31 December 2014, Senior Management had accrued an entitlement to €1,102 thousand of variable remuneration.

50% of these amounts will be paid 10 days after the Board of Directors authorizes the Company's 2014 financial statements for issue. The other 50% will be paid five years after the Company's financial statements are authorized for issue.

At 31 December 2014, the Parent had a commitment to award an additional bonus to the management team as determined by the Appointments and Remuneration Committee, linked to the Company's shares, since the Company's Senior Management is remunerated based on the returns obtained by the Company's shareholders (the "Management Stock Plan").

The Company must exceed the following thresholds before members of Senior Management are entitled to shares under the Management Stock Plan:

- Total shareholder return per annum of over 8%. The annual shareholder return is calculated as the sum of any fluctuation in the Company's EPRA NAV over the year minus the net funds obtained from shares issued during the year, plus the dividends distributed during the year.

- The sum of: (i) MERLIN's EPRA NAV at 31 December of said year, and (ii) the total value of dividends (or any other form of shareholders remuneration or pay-out) distributed during said year or any prior year since the last year when there was an entitled to receive shares under the Management Stock Plan, must exceed the greater of the following amounts: (a) the opening EPRA NAV (opening EPRA NAV being the net funds obtained by the Company on offering and trading its shares) and (b) the EPRA NAV at 31 December (plus any adjustments resulting from excluding the net funds of any issuance of ordinary shares in said year) of the last year when there was an entitled to receive shares under the Management Stock Plan. This excess is referred to as the High Watermark Outperformance and represents the amount over and above the last EPRA NAV that gave rise to the entitlement to shares under the Management Stock Plan.

Once both thresholds are reached, the amount to be allocated to the Management Stock Plan for the year (bonus) will be the lower of the following:

(x) 10% of the annual shareholder return once this exceeds 8%, and 15% of the shareholder return if the annual shareholder return is over 12%; or

(y) 20% of the High Watermark Outperformance.

Pursuant to the above, the Parent has exceeded both thresholds once the return generated in the six months between first listing and 31 December is annualized:

(Thousands of euros)	**Annualized**
EPRA NAV, start of period	1,292,120
EPRA NAV, end of period	1,354,973
Change in EPRA NAV	62,853
Dividends distributed during the period	-
Shareholder return	**62,853**
Shareholder return (%)	9.73%

Shareholder return required to exceed annualized profitability thresholds of 8% in six months	51,684
Annualized six-month shareholder return over and above 8% annual threshold	**11,169**

Applicable High Watermark	1,292,120
Period end EPRA NAV + dividends paid	1,354,973
Return over and above applicable High Watermark	**62,853**

Testing of conditions for entitles to bonus	
Shareholder return above 8%	YES
Return over and above applicable High Watermark	**YES**
Calculation of bonus. The lower of:	**Annualized**
10% of annual shareholder return for management team	6,285
Return over and above applicable High Watermark	12,570
Bonus applicable	**6,285**

Nonetheless, the Parent's Senior Management have decided to waive their entitlement to bonuses under the Management Stock Plan in 2014 as they understand that much of the value created for shareholders stems from the increase in value of the investment in Tree Inversiones Inmobiliarias, S.A. This company was acquired for €1,577 million, while independent appraisers have valued it at €1,656 million, giving rise to an increase in value on acquisition of €79 million.

Lastly, as regards "golden parachute" clauses for executive directors and other senior executives of the Parent or Group in the event of dismissal or takeover, contracts provide for compensation (which reduces over time). These clauses entail a total commitment of EUR 25,520 thousand at 31 December 2014.

20. Auditors' remuneration

Fees for audit services in 2014 for the different companies in the Merlin Group and subsidiaries, provided by the statutory auditor and companies related thereto and by other auditors, are as follows:

Description	Thousands of euros
Audit services	102.5
Other assurance services	305.0
Total audit and related services	**407.5**
Other services	-
Tax advisory services	-
Total other services	**-**
Total	**407.5**

Other audit-related services include the assurance services performed as part of the share issue and flotation of the Parent.

21. Environmental information

Given the activity in which the Group engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a material impact on its equity, financial position and results of its operations.

Therefore, no specific environmental disclosures have been included in these notes to the consolidated financial statements.

22. Risk exposure

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programmer is based on the uncertainty of financial markets and aims to minimize the adverse effects of such risks on the financial profitability of the Group.

Risk management is undertaken by the Group's Senior Management in accordance with the policies approved by the Board of Directors. Senior Management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operating units. The Board of Directors issues the written global risk management policies and the policies for specific areas, including those for covering market risk, interest rate risk and liquidity risk and investing cash surpluses.

Market risk

Given the current status of the real-estate sector and in order to mitigate the effects thereof, the Group has specific measures in place to minimize said impact on its financial position.

These measures are applied pursuant to the results of sensitivity analyses carried out by the Group on a regular basis. These analyses involve:

- Assessing the economic environment in which the Group operates: Designing different economic scenarios and modifying the key variables potentially affecting the Group. Identifying interdependent variables and the extent of their relationship; and

- Taking into account the time frame of the analyses: Consideration is given to the periods over which analyses are performed and any possible deviations thereof.

Credit risk

Credit risk is defined as the potential risk of loss in earnings to which the Group is exposed if a customer or counterparty breaches its contractual obligations.

As a general rule, the Group places cash and cash equivalents with financial institutions with high credit ratings.

Except in the case of the BBVA branch leases, the Group is not exposed to significant concentration of credit risk with one customer or counterparty. The Group regularly reviews the credit rating and thus the creditworthiness of BBVA vis-à-vis the segment of bank branches leased to this bank. The Group also pays close attention to this situation, since the finance held is dependent on credit quality being maintained. The Parent's directors do not consider that there is any material credit risk regarding receivables due from this lessee.

With respect to other customers, the Group has policies in place to limit the volume of risks posed by customers. Exposure to the risk of being unable to recover receivables is mitigated in the normal course of business through funds or guarantees deposited as collateral.

The Group has formal procedures to identify any impairment of trade receivables. Delays in payment are detected through these procedures and individual analysis by business area and methods are established to estimate impairment loss.

Details of the estimated maturities of the Group's financial assets in the consolidated statement of financial position at 31 December 2014 are as follows. The tables present the results of the analysis of the aforesaid maturities of financial assets at 31 December 2014:

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Trade and other receivables	3,340	-	-	-	3,340
Other non-current financial assets	-	-	-	281,192	281,192
Other current financial assets	791	-	125,000	-	125,791
Cash and cash equivalents	26,050	-	-	-	26,050
Total	**30,181**	**-**	**125,000**	**281,192**	**436,373**

Cash and cash equivalents

The Group has cash and cash equivalents of €26,050 thousand, which represents its maximum exposure to the risk posed by these assets.

Cash and cash equivalents are deposited with banks and financial institutions.

Liquidity risk

Liquidity risk is defined as the risk of the Group encountering difficulties meeting its obligations regarding financial liabilities settled in cash or with other financial assets.

The Group conducts prudent management of liquidity risk by maintaining sufficient cash to meet its payment obligations when they fall due, both in normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation.

Details of the Group's exposure to liquidity risk at 31 December 2014 are provided in the table below. The tables present the results of the analysis of financial liabilities by remaining contractual maturity date:

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Bank borrowings	568	2,693	7,548	-	10,809
Other non-current liabilities – Guarantees				21,498	21,498
Trade and other payables (excluding payables to public authorities)	19,295	1,426	-	841	21,562
Total	**19,863**	**4,119**	**7,548**	**22,339**	**53,869**

Cash flow interest rate risk and fair value risk

At 31 December 2014, the Group held current financial assets earning a fixed rate of interest (deposits) to extract value from the surplus cash not invested in investment properties.

The Group manages its interest rate risk by borrowing at fixed and floating rates of interest. The Group's policy is to ensure non-current net financing from third parties is at a fixed rate. To manage this, the Group enters into interest rate swaps which are designated as hedges of the respective loans. The impact of interest rate fluctuations is explained in Note 13.2.

Exchange rate risk

The Group is not exposed to exchange rate fluctuations as all its operations are in its functional currency.

Price risk

The Group has inflation hedges to protect rental income from risks of fluctuations in the inflation rate (CPI) (see Note 13.2).

Tax risk

As mentioned in Note 1, the Parent and its subsidiaries are subject to the special tax regime for SOCIMIs. As established in Article 6 of Act 11/2009, of 26 October, amended by Act 16/2012, of 27 December, the SOCIMIs opting to pay tax under the special tax regime are required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding commercial obligations have been fulfilled, said distribution must be agreed within six months from year end,and the dividends paid within 30 days from the date on which the pay-out is agreed (Note 5.7).

Should the shareholders of these companies at their respective general meetings not approve the distribution of dividends proposed by their board of directors – calculated pursuant to the requirements of the aforementioned law – they will be in breach of the law and will therefore have to pay tax under the general tax regime not the one applicable to SOCIMIs.

23. Events after the reporting period

On 3 February 2015, Tree Inversiones Inmobiliarias, Socimi, S.A. arranged with BBVA to replace 42 BBVA branch offices with 45 new branch offices owned by the latter, applying the same lease terms and conditions under which the outgoing assets were leased. The value of the outgoing and incoming assets, calculated by an independent appraiser, also remains the same.

On 18 February 2015, Merlin Retail, Socimi, S.L. obtained a €133.6 million loan from Allianz Real Estate to finance the Centro Comercial Marineda, which matures in 2025.

24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I
"Subsidiaries"

			% interest	Thousands of euros				
Company	Registered office	Activity	2014	Net cost at 31/12/2014	Share capital	Profit/(Loss)	Other equity	Auditor
Tree Inversiones Inmobiliarias SOCIMI, S.A.	Castellana 42, Madrid	Acquisition and development of property assets for subsequent leasing	100%	657,984	9,323	(27,169)	36,144	Deloitte
Bosque Portfolio Management, S.L.	Castellana 42, Madrid	Real estate management	100%	-	3	(288)	311	Deloitte
Merlin Logística, S.L.	Castellana 42, Madrid	Acquisition and development of property assets for subsequent leasing	100%	3	3	158	(1)	Deloitte
Merlin Retail, S.L.	Castellana 42, Madrid	Acquisition and development of property assets for subsequent leasing	100%	3	3	1,880	(1)	Deloitte
Merlin Oficinas, S.L.	Castellana 42, Madrid	Acquisition and development of property assets for subsequent leasing	100%	3	3	(5,365)	(1,182)	Deloitte

MANAGEMENT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

For the period ended on December 31, 2014

MERLIN PROPERTIES

INDEX

MERLIN PROPERTIES

1. ORGANIZATION AND STRUCTURE

1.1. Constitution and flotation

MERLIN Properties (hereinafter, MERLIN Properties or the Company) was incorporated on 25 March, 2014 in Spain under the Spanish Corporate Law (Ley de Sociedades de Capital) by issuing 60,000 registered shares par value of 1 euro each. On 5 June 2014, the shareholders made a monetary contribution of 540 thousand euros, through "Other shareholder contributions".

On 22 May 2014, the Company requested its incorporation into the REIT tax regime, effective from 1 January 2014.

On 30 June 2014, the Company floated on the Spanish Stock Exchange completing a capital increase of 125,000 thousand euros with an issue premium of 1,125,000 thousand euros by issuing 125,000,000 new registered shares of 1 euro par value each. These shares were fully paid and subscribed.

In order to cater for the exercise of the green shoe option, on 14 July 2014 the Company performed a second share capital increase of 4,152 thousand euros, with a share premium of 37,368 thousand euros, through the creation of 4,152,001 fully subscribed and paid new shares of EUR 1 par value each.

The Company's share capital at December 31, 2014, was represented by 129,212,001 fully subscribed and paid ordinary shares, with a par value of 1 euro, all of the same class. All of the Company's shares are admitted for public trading and official listing on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges.

The Company owns a portfolio of real estate assets with a value over € 2,230 million, as per Savills valuation, focused on incoming producing commercial assets with the following characteristics:

- Leading shopping center complexes dominant in their local area
- Offices located in prime or secondary locations, mainly in Madrid, Barcelona and, to a lesser degree, in Lisbon.
- Logistics properties located in major logistics centers in Spain and Portugal.
- Urban hotels located in prime locations.

1.2. Subsidiaries

The Company has created three subsidiaries dividing its assets by category as follows

- MERLIN Retail S.L.U. (hereinafter, MERLIN Retail), 100% owned by MERLIN Properties, devoted to the acquisition and management of shopping centers.
- MERLIN Oficinas S.L.U. (hereinafter, MERLIN Office), 100% owned by MERLIN Properties, devoted to the acquisition and management of office assets.
- MERLIN Logística S.L.U. (hereinafter, MERLIN Logistics), 100% owned by MERLIN Properties, devoted to the acquisition and management of logistic and industrial assets.

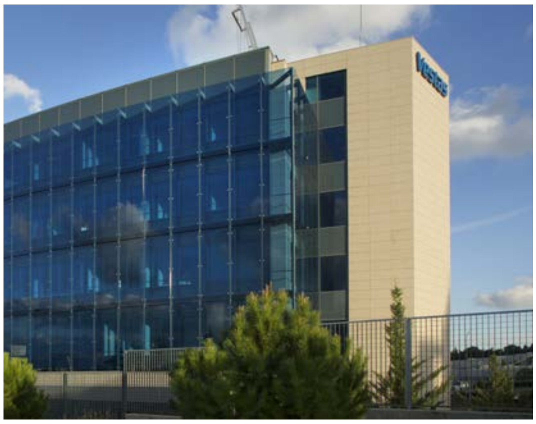
Additionally, as part of its investment activities, as further detailed below, the Company has acquired 100% of the shares of Tree Inversiones Inmobiliarias Socimi, S.A., a company owning a portfolio comprised of 885 assets fully let to BBVA

MERLIN group of companies is shown below:

1.3. Management Organization

The internal management organization structure can be summarized as follows:

- Board of Directors: consisting of nine directors, advised by both the Audit Control Committee and the Remuneration and Nomination Committee.
- President and Chief Executive Officer: reporting directly to the Board of Directors and forming part of it.
- Investment Committee: reporting to the President / CEO and consisting of 9 members, with the right of veto held by the Chief Investment Officer



MERLIN PROPERTIES

100%
TREE INVERSIONES INMOBILIARIAS SOCIMI SAU

100%
MERLIN RETAIL SOCIMI SLU

100%
MERLIN OFICINAS SOCIMI SLU

100%
MERLIN LOGISTICA SOCIMI SLU

2.
BUSINESS PERFORMANCE

2.1. Economic context

The Spanish economy is growing at a considerably faster rate with progressively more positive data in almost every macro-economic indicator. This growth is even more impressive, coming as it does against a background of an economic slowdown in most other European countries. In the third quarter of 2014, the GDP increased by 1.6% year-on-year (0.5% quarter-on-quarter, as previous months). This is the fifth consecutive quarter of progressively increasing growth and it is expected to continue rising in the succeeding quarters of this year.

Private consumption is to a large extent responsible for this GDP expansion with several indicators (e.g., retail sales, consumer confidence) showing signs of a gradual normalization after a significant improvement during 2014. Exports, in turn, registered good figures, counterbalanced by the substantial volume of imports. On the supply side, the industrial and service indicators, including construction, are also posting positive figures. Employment has increased in every quarter of 2014 across most industries, while Social Security data indicates that this trend should continue through 2015.

Further, while prices remain depressed by the decline in the price of energy products, the expansion of demand and the economic growth forecast do not indicate continued deflation, and they are expected to increase in the medium term. Thus, after several years of pronounced crises and poor expectations in the short term, forecasts for growth have been revised upwards throughout 2014. There is little doubt that the upward movement will continue more intensively in 2015, notwithstanding the threats and serious imbalances that the Spanish economy still suffers. The job destruction, as well as the declining household income due to significant adjustment in the business sector is finally reversing. This should be constructive for economic growth during 2015.

2.2. Portfolio of assets

Following its flotation on 30 June 2014, MERLIN Properties has executed 9 investments during this fiscal year, amounting to a total of 2,127,833 thousand euros, of which 2,114,934 thousand euros correspond to the acquisition price of the assets, and 12,898 thousand euros to transaction costs.

The property portfolio has a Gross Leasable Area (“G.L.A.”) of 680,045 sqm. The Gross Asset Value is 2,231,623 thousand euros. The Net Asset Value of the assets, according to the EPRA Net Asset Value, is 1,354,970 thousand euros (10.5 euros per share).

KEY ASPECTS OF THE PORTFOLIO

	31/12/2014
Portfolio Gross Asset Value(2) (€ thousand)	2,231,623
Portfolio acquisition costs(1) (€ thousand)	2,127,833
Gross annualized rents 2014 (€ thousand)	128,309
Net annualized rents 2014 (€ thousand)	126,146
EPRA Gross Yield(3)	6.03%
EPRA Topped-up Initial Yield(4)	5.93%
Total G.L.A (sqm)	680,045
Occupancy Rate	96.6%
WAULT by rents (years)(5)	18.7

(1) The portfolio acquisition costs correspond to: (i) integration of Tree Inversiones Inmobiliarias, SOCIMI, S.A. as a business combination (1,369,069 thousand euros) plus the value of the embedded derivative related to the BBVA contract inflation uplift multiplier, which is accounted as a financial asset (287,422 thousand euros at the time of acquisition of Tree by MERLIN), plus (ii) acquisition costs of the remaining assets of the portfolio, amounting to 551,394 thousand euros, less (iii) 79,039 thousand euros corresponding to the difference between the aggregate of the integration of Tree as a business combination plus the value of the embedded derivative less Tree acquisition cost of 1,577.452 thousand euros, (iv) plus 782 thousand euros of equipment acquired as part of the Marineda transaction, accounted as property, plant and equipment, and less (v) 1,795 thousand euros of contingent price adjustment in the World Trade Center Almeda Park 8 asset, the said adjustment being applicable if and when the former owner completes some leases under negotiation, and which has been accounted as higher acquisition price

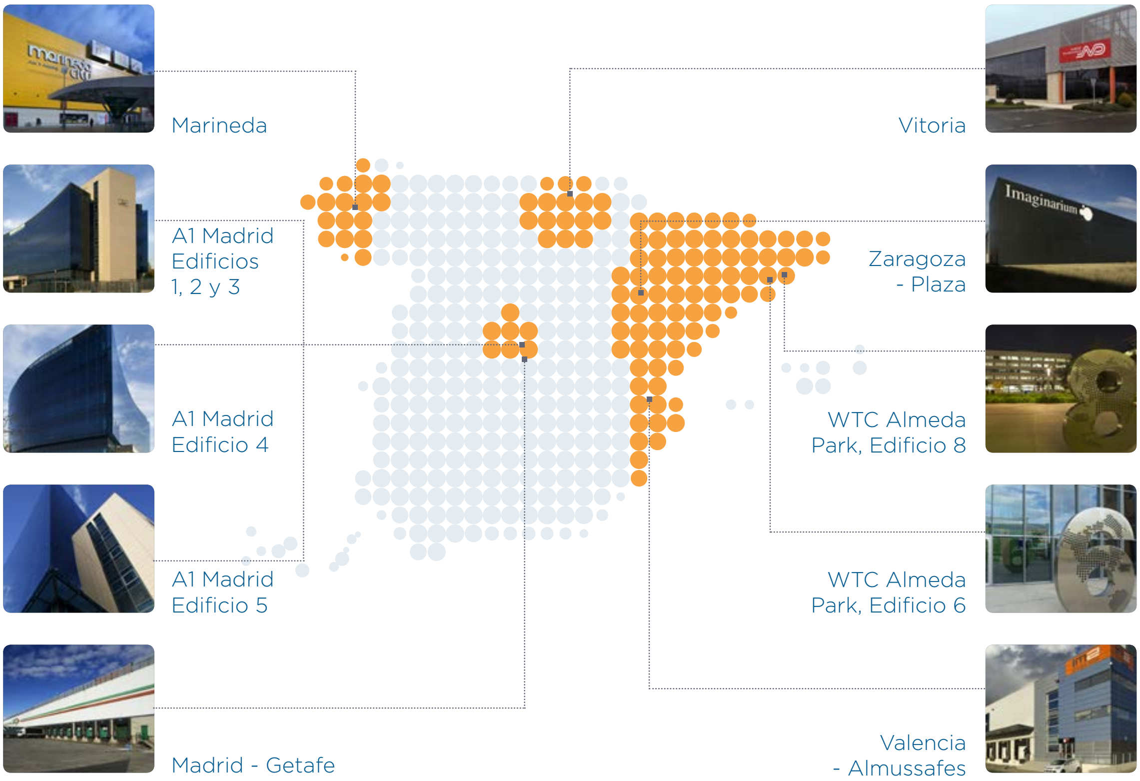
(2) According to Savills valuation as of December 31, 2014

(3) Calculated as Gross annualized rents divided by Portfolio acquisition costs

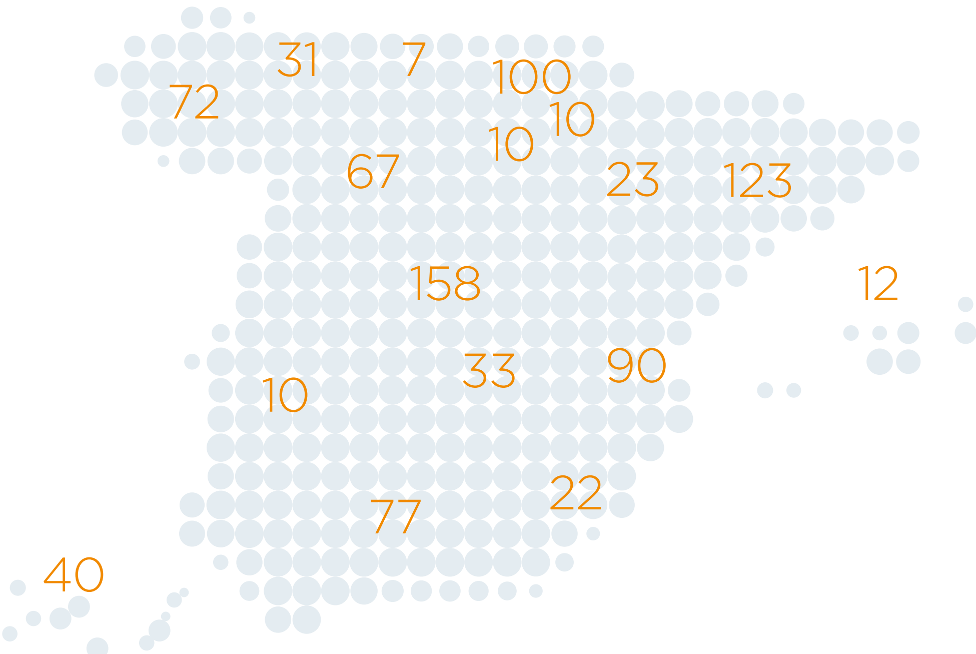
(4) Calculated as the Gross annualized rents minus non-recoverable charges, divided by Portfolio acquisition costs

(5) Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from 31 December 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

LOCATION OF THE ASSETS OF THE PORTFOLIO

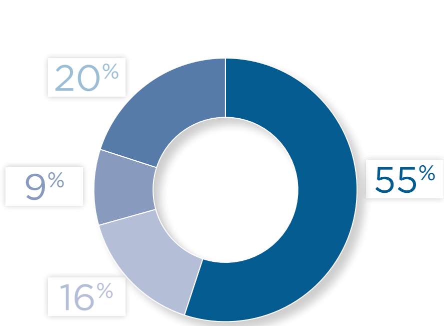


LOCATION OF THE TREE INVERSIONES INMOBILIARIAS ASSETS

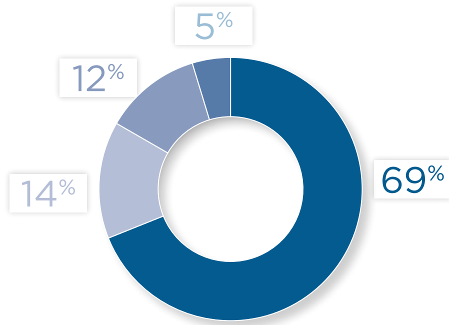


MERLIN PROPERTIES

G.L.A BY TYPE OF ASSET OF THE PORTFOLIO

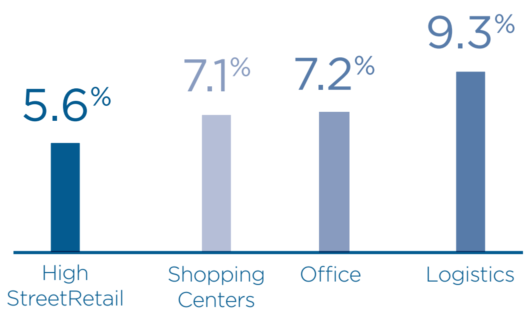


GROSS ANNUALIZED RENTS BY TYPE OF ASSET

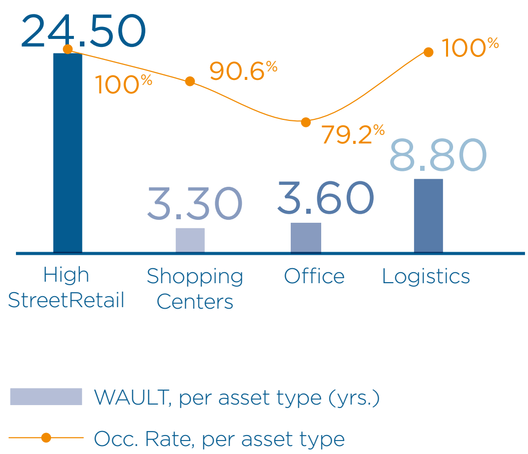


High Street Retail   Shopping Centers   Office   Logistics

GROSS YIELD BY TYPE OF ASSET



OCCUPANCY AND WAULT BY TYPE OF ASSET



The main characteristics of the assets in the portfolio are shown below.

2.2.1. Tree Inversiones Inmobiliarias

On July 3, 2014, the Company acquired 100% of the shares of Tree Inversiones Inmobiliarias, SOCIMI, S.A., for a total amount of € 739,484 thousand.

Currently, Tree Inversiones Inmobiliarias is devoted to the operation and management of 880 branches and 5 buildings fully let to BBVA with a long-term lease, 30 years for the branches (25 years remaining), and 20 years for the buildings (15 years remaining). The portfolio G.L.A. is 374,181 sqm, and is spread across all Spain, with presence in 442 municipalities and 49 provinces. Over 60% of the portfolio is located in the 5 regions with higher GDP per capita than the Spanish average (Madrid, Cataluña, Basque Country, Comunidad Valenciana and Castilla y León).

The main characteristics of the acquired portfolio are the following:

TREE INVERSIONES INMOBILIARIAS

Acquisition price of the assets (€ thousand)	1,577,452
Assets debt outstanding as of the date of purchase (€ thousand)	(842,857)
Cash generated by the individual sale of assets during the second quarter of 2014	4,888
Equity disbursement (€ thousand)	739,483
Debt to acquisition price of assets	53.1%
Gross rent since acquisition up until 12/31/14 (€ thousand)	44,242
Annualized Gross Rent 2014 (€ thousand)	88,516
Annualized Net Rent 2014 (€ thousand)	88,516
EPRA Gross Yield	5.61%
EPRA Topped-up Initial Yield[1]	5.61%
Total G.L.A. (sqm)	374,181
Occupancy rate	100%
WAULT by rents (years)[2]	24.5

[1] Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
[2] Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.2. Marineda shopping centre

On July 31, 2014, the Company acquired, through its subsidiary MERLIN Retail, the Marineda shopping centre and an adjacent hotel for a total amount of € 260,000 thousand.

Marineda is the leading shopping complex in Galicia and the second largest in Spain. Opened in 2011, as part of the "Marineda City" shopping and leisure complex, the entire complex has a built area of more than 500,000 sqm and a G.L.A. of approximately 196,000 sqm. The complex, which received 15.1 million visitors in 2014, has 6,000 parking spaces.

The Marineda shopping centre is located just 6.6 km from the city centre of A Coruña and boasts excellent connections with both the city center and adjacent municipalities. The centre's catchment area covers a population of almost 2,800,000 people. The centre has 100,378 sqm of G.L.A. and an attractive and balanced retail mix which includes prestigious operators such as the Inditex Group brands, Primark, H&M, C&A, Decathlon, Bricor, Media Markt and Worten. El Corte Inglés and IKEA's company-owned stores also form part of the Marineda City shopping and leisure complex.

MARINEDA

Acquisition price of the assets (€ thousand)	260,000
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	260,000
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	7,631
Annualized Gross Rent 2014 (€ thousand)	18,460
Annualized Net Rent 2014 (€ thousand)	17,239
EPRA Gross Yield	7.10%
EPRA Topped-up Initial Yield[1]	6.63%
Total G.L.A. (sqm)	106,276
Occupancy rate	91%
WAULT by rents (years)[2]	3.3

[1] Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
[2] Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.3. Portfolio of 5 office buildings in Madrid A-1 corridor

On October 2, 2014, the Company purchased through its subsidiary MERLIN Oficinas, a portfolio of 5 office buildings located in Madrid, for a total amount of € 130,000 thousand.

The portfolio has a total G.L.A. of 34,175 sqm and includes 5 office buildings, one with total G.L.A. of 10,856 sqm and 281 parking places fully let to Vestas, an office complex with 3 buildings with total G.L.A. of 17,139 sqm and 392 parking places, let to Philips and Neoris, and a building available for letting with a total G.L.A. of 6,180 sqm and 98 parking places.

All the properties are built to the highest standards and are highly visible from the A1 highway, very close to Plaza de Castilla.

BUILDINGS IN MADRID A-1 CORRIDOR

Acquisition price of the assets (€ thousand)	130,000
Assets debt outstanding at October 7th (€ thousand)	70,000
Equity disbursement (€ thousand)	60,000
Debt to acquisition price of assets	53.8%
Gross rent since acquisition up until 12/31/14 (€ thousand)	2,490
Annualized Gross Rent 2014 (€ thousand)	9,800
Annualized Net Rent 2014 (€ thousand)	9,215
EPRA Gross Yield	7.54%
EPRA Topped-up Initial Yield(1)	7.09%
Total G.L.A. (sqm)	34,175
Occupancy rate	76.4%
WAULT by rents (years)(2)	2.5

(1) Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
(2) Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.4. Office buildings in World Trade Center Almeda Park – 6 and 8

On August 13, 2014, the Company, through its subsidiary MERLIN Oficinas, purchased an office building located in World Trade Center Almeda Park business center, for a total amount of € 46,750 thousand. On December 10, 2014, MERLIN Oficinas acquired a second building in World Trade Center Almeda Park for an amount of € 36,500 thousand.

Both assets enjoy twin shape, lay-out and specifications, being efficient and class-A properties. The aggregate G.L.A. is 29,078 sqm, distributed over a ground floor and four upper levels. The buildings are also equipped with 460 parking spaces and over 1,700 sqm of storage space. Building 6 is fully let out with long-term lease contracts to blue chip multinationals such as Axa Seguros, Sharp Electronics and Eclipse Support, while building 8 is partially let to multinational companies such as Panasonic, Technip and Colt Telecom, for a combined occupancy rate of 82.5%.

The properties are located in Cornellá de Llobregat (Barcelona) and form part of the well-established WTCAP business park, which is made up of 7 office buildings with a total surface area of approximately 90,000 sqm. This strategic location, just 15 minutes from the centre of Barcelona and 10 minutes from the city's airport, coupled with its excellent connections (Ronda Litoral, Ronda de Dalt and A-2 roads) has attracted prestigious multinational companies such as Luxottica, Revlon, Alstom, Panasonic and Schweppes to this business park.

WORLD TRADE CENTER ALMEDA PARK

Acquisition price of the assets (€ thousand)	83,250
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	83,250
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	1,408
Annualized Gross Rent 2014 (€ thousand)	5,537
Annualized Net Rent 2014 (€ thousand)	5,206
EPRA Gross Yield	6.65%
EPRA Topped-up Initial Yield(1)	6.25%
Total G.L.A. (sqm)	29,078
Occupancy rate	82.5%
WAULT by rents (years)(2)	5.3

(1) Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
(2) Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.5. Vitoria - Júndiz

On December 30, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Vitoria, for a total amount of € 28,582 thousand.

On a plot of 107,183 sqm, the constructed area of the property is 72,717 sqm, and is fully leased on a long-term basis to Norbert Dentrenssangle, one of the leading international logistics operator. The property benefits from the highest logistics standards including 33 sheltered loading docks.

The property is located between the Ali Gobeo and Júndiz industrial parks. Ali Gobeo is notable for the presence of the 650,000 sqm Mercedes Benz factory, and Júndiz is in an excellent location, at the crossroads of national highways A68/A-1/N-1 and N-240, which make it a perfect location for logistics. Over 500 companies are located in Júndiz, including the Spanish Postal Service, DHL, DB Schencker, Azkar, ADIF, and Eroski.

VITORIA - JÚNDIZ

Acquisition price of the assets (€ thousand)	28,582
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	28,582
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	15
Annualized Gross Rent 2014 (€ thousand)	2,754
Annualized Net Rent 2014 (€ thousand)	2,754
EPRA Gross Yield	9.63%
EPRA Topped-up Initial Yield[1]	9.63%
Total G.L.A. (sqm)	72,717
Occupancy rate	100%
WAULT by rents (years)[2]	9.8

[1] Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
[2] Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.6. Madrid - Getafe

On December 12, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Getafe, for a total amount of € 12,750 thousand.

This asset, built in 2000 following the highest standards for logistics facilities, has a gross lettable area of 16,242 sqm and is fully leased on a long-term basis to Transportes Souto, one of the leading logistics operator in the Spanish market.

The property is located in the industrial area known as CLA Getafe, the most logistics area in South Madrid (15 kilometers from Madrid center), which boasts excellent access to the A-4, M-50, R-4 and A-42 roads.

SOUTO GETAFE

Acquisition price of the assets (€ thousand)	12,750
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	12,750
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	89
Annualized Gross Rent 2014 (€ thousand)	1,072
Annualized Net Rent 2014 (€ thousand)	1,072
EPRA Gross Yield	8.41%
EPRA Topped-up Initial Yield(1)	8.41%
Total G.L.A. (sqm)	16,642
Occupancy rate	100%
WAULT by rents (years)(2)	9.9

(1) Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
(2) Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.7. Valencia - Almussafes

On September 30, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Almussafes, for a total amount of € 12,150 thousand.

The asset, built in 2008 with the highest standards for logistics facilities, has a G.L.A. of 26,613 sqm and is 100% leased to blue chip tenants such as Ford, Johnson Controls and Truck & Wheel. The property is located in the Sollana industrial area of the town of Almussafes (22 km. from Valencia) and boasts excellent access to the AP-7, A-7 and V-31 roads. This industrial hub has successfully grown around Ford's main manufacturing facility in Spain, housing major operators serving the automobile industry.

ALMUSSAFES

Acquisition price of the assets (€ thousand)	12,150
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	12,150
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	318
Annualized Gross Rent 2014 (€ thousand)	1,118
Annualized Net Rent 2014 (€ thousand)	1,093
EPRA Gross Yield	9.21%
EPRA Topped-up Initial Yield[1]	9.00%
Total G.L.A. (sqm)	26,613
Occupancy rate	100%
WAULT by rents (years)[2]	2.4

[1] Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
[2] Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.8. Zaragoza - Plaza

On August 5, 2014, the Company, through its subsidiary MERLIN Logística, purchased the logistic center and headquarters of Imaginarium, for a total amount of € 10,750 thousand.

The asset comprises 3 buildings (2 for logistic and storage use and one for office use), leased on a long-term basis, to Imaginarium, a leading brand in the educational toys sector, present in over 28 countries around the world. The asset benefits from approximately 15,000 sqm of unused buildability.

With a G.L.A. of 20,764 sqm, the property is located in Zaragoza, in the consolidated Logistics Platform of Zaragoza (PLAZA), one of the largest logistics premises in Spain, with an area of over 13 million sqm. The strategic location and excellent communications, by road, rail and plane, make PLAZA an appealing location for renowned international companies such as Inditex, DHL, Azkar and Balay.

IMAGINARIUM

Acquisition price of the assets (€ thousand)	10,750
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	10,750
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	423
Annualized Gross Rent 2014 (€ thousand)	1,050
Annualized Net Rent 2014 (€ thousand)	1,050
EPRA Gross Yield	9.77%
EPRA Topped-up Initial Yield(1)	9.77%
Total G.L.A. (sqm)	20,764
Occupancy rate	100%
WAULT by rents (years)(2)	11.9

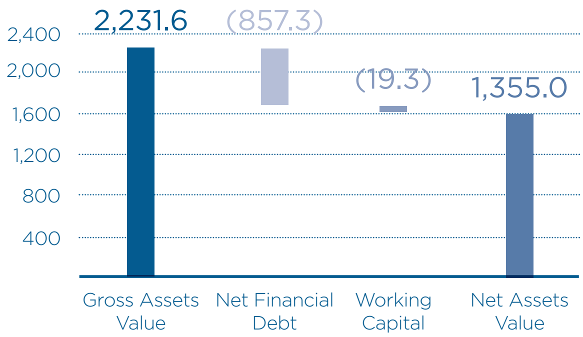
(1) Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets
(2) Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.9. Market value of the portfolio of assets

The valuation of the portfolio of assets of MERLIN Properties as at 31 December 2014 was conducted by Savills. The market value of the portfolio of assets of the Company is 2,231.6 million euros. MERLIN Properties owns 100% of the valued assets. The acquisition price of the assets under valuation, excluding the transaction costs, was 2,114.9 million euros. The total acquisition price including the capitalized transaction costs was 2,127.8 million euros[1].

The valuation of the assets was performed in accordance with the professional standards of valuation and appraisal of the RICS (Royal Institution of Chartered Surveyors).

The net asset value, according to EPRA's methodology, amounted to 1,354.9 million euros, resulting from subtracting the market value of the portfolio according to Savills, the net debt of the Company as at 31 December 2014 and the working capital on the same date. The following table shows the details of this calculation



PORTFOLIO NET ASSET VALUE (ACCORDING TO EPRA)

(thousand euros)	31/12/2014
Gross Assets Value ("GAV")	2,231,623
Gross Financial Debt	(1,010,166)
Cash and short-term investments	152,844
Net Financial Debt	(857,322)
Working Capital[2]	(19,331)
Net Assets Value according to EPRA ("EPRA NAV")	**1,354,970**
Number of shares	129,212,001
EPRA NAV per share (€)	**10.50**

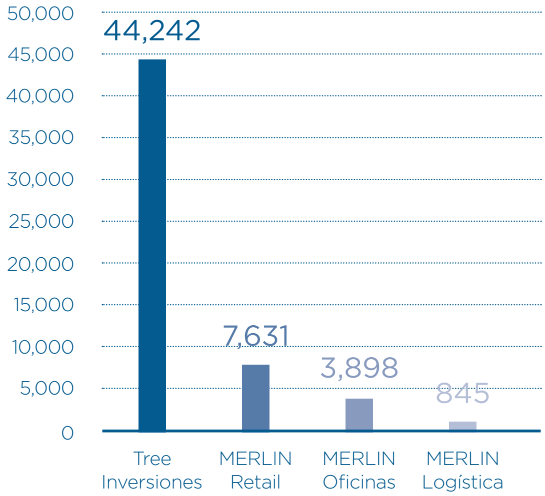
[1] Includes the price adjustment applicable for the World Trade Centre Almeda Park 8
[2] Calculated as trade and other receivables and other current assets, less trade and other payables and other current liabilities

2.3. Results of FY2014

2.3.1. Revenues and EBITDA

The Company recognised rental income of 56,616 thousand euros, an EBITDA of 38,031 thousand euros and a consolidated net profit of 49,670 thousand euros (0.38 euros per share).

The breakdown of revenues by subsidiaries is the following:



MAIN ECONOMIC-FINANCIAL FIGURES

(thousand euros)	31/12/2014
Gross Rental Income	56,616
Net Rental Income	54,031
EBITDA	38,031
Net Profit for the Period	49,670
Gross Financial Debt	1,010,167
Net Financial Debt	858,327
Net Financial Debt / Gross Asset Value (“GAV”)	38.5%
Net Profit for the Period per Share (€)	**0.38**

2.3.2. Operating costs

In compliance with the policy committed by the Company when it started trading on the Spanish Stock Market, the annual total overheads of the Company are set at the higher of (a) 6.0% of the consolidated gross rental income of the Company, and (b) 0.6% of the consolidated EPRA NAV. As detailed in the chart below, for the period from the listing to 31 December 2014, the resulting amounts are (a) 3,397 thousand euros and (b) 4,065 thousand euros. Based on the foregoing formula, article (b) is applicable to determine the total annual overheads for this financial year.

For purposes of calculating the annual overheads of the Company, excluded items are, among other things, financing expenses and fees associated with the financing of assets, flotation costs, transaction costs over acquired assets, taxes and facility management associated to assets, severance payments and/or any dismissal costs of employees and extraordinary expenses.

Total operating costs of the Company for 2014 were 19,092 thousand euros, of which 15,027 thousand euros are excluded from the overheads limitation. This amount includes significant items incurred in this fiscal year with non-recurring nature, such as (i) costs associated with the financing of the A-1 office portfolio in Madrid and the financing of Tree Inversiones, (ii) costs associated with the acquisition of Tree Inversiones which have not been capitalized and (iii) costs associated with the flotation which have not been accounted as negative reserves. Additionally, asset level operating costs non-rechargeable to tenants amount to 2,585 thousand euros.

Out of the total amount of the costs included within the limit of the annual overheads (4,065 thousand euros), 3,079 thousand euros correspond to personnel costs and 986 thousand euros to running costs of the Company (external consultants such as lawyers, auditors, advisors as well as the office rental cost, Spanish Stock Exchange costs, travel, transaction costs related to projects not completed, etc.).

OPERATIONAL COSTS BREAKDOWN

(€ thousand)	31/12/2014	% Total
Asset level expenses non rechargeable to tenants	2,585	13%
Asset Financing expenses	11,766	62%
Non-capitalized listing and assets acquisition costs	676	3%
Total Costs excluded from the Overheads Limit	**15,027**	**78%**
Running Costs	986	5%
Personnel Costs	3,079	17%
Total Costs included in Overheads Limit	**4,065**	**22%**
Total Operating Costs	**19,092**	**100%**

The total amount of personnel costs are 3,079 thousand euros, of which 1,098 thousand euros correspond to fixed remuneration, 1,870 thousand euros correspond to variable remuneration and 111 thousand euros correspond to the Company's labour costs (Social Security).

Furthermore, the Company has agreed to grant an additional incentive of annual variable remuneration to the management team, to be determined by the Remuneration and Nomination Committee, linked to the Company's shares which rewards the management team depending on the returns achieved by the Company's shareholders (the "Management Stock Plan").

The members of the management team will be entitled to the delivery of the shares stemming from the Management Stock Plan if the following two key hurdles are met:

- The Shareholder Return Rate (defined as the Shareholder Return for a given year divided by the EPRA NAV of the Company as of 31 December of the immediately preceding year) for such year exceeds 8% The Shareholder Return for a given year is equivalent to the sum of the change in the EPRA NAV of the Company during such year less net proceeds of any issuance of shares during such year, plus the total dividends that are paid in such year.

- The sum of (i) the EPRA NAV of the company on 31 December of the fiscal year and (ii) the total dividends (or any other form of remuneration or distribution to the shareholders) that has been distributed in that fiscal year, or in any preceding fiscal year since the most recent fiscal year in respect of which a payment under the Management Stock Plan was made, exceeds the Relevant High Watermark (the amount by which such sum exceeds the Relevant High Watermark is the "High Watermark outperformance"). The Relevant High Watermark at any time is the higher of (i) the Initial EPRA NAV, and (ii) the EPRA NAV on 31 December (adjusted to exclude the net proceeds any issuance of any Ordinary Shares during that year) of the most recent year in respect of which a payment was made under the Management Stock plan.

If the above hurdles are met, the Management Stock Plan in respect of such year will be equal to the lesser of:

- 10% of the Shareholder Return Outperformance if the Shareholder Return Rate for such year exceeds 8% and 15% of the Shareholder Return Outperformance if the Shareholder Return Rate for such year exceeds 12%. A "Catch-up mechanism will be implemented at both the 8% and 12% hurdles for the Management Stock Plan, or

- 20% of the High Watermark Outperformance.

Based on the performance of the Company for the six months period from the listing on the Spanish Stock Exchange until 31 December 2014 annualized, both of the key hurdles have been met by MERLIN Properties, as detailed in the following chart:

(€ thousand)	**Annualized**
EPRA NAV Beginning of the Period	1,292,120
EPRA NAV End of the Period	1,354,973
Variation in EPRA NAV	62,853
Dividends paid in the year	0
Total Shareholder Return	**62,853**
Total Shareholder Return in %	9.73%
Necessary return to shareholders to exceed the threshold of annualized return of 8% in 6 months	51,684
Excess of 6 months annualized return of the shareholders at over 8% in annual terms	**11,169**
Relevant High Watermark	1,292,120
EPRA NAV end of period + dividends paid	1,354,973
High Watermark Outperformance	**62,853**

Key Hurdles Test:

Shareholder Return above 8%	YES
High Watermark Outperformance	YES
Promote Calculation. It is the lower of the following:	**Annualized**
10% of the Total Shareholder Return	6,285
20% of the excess return on Relevant High Watermark	12,570
Applicable Stock Plan	**6,285**

MERLIN Properties management team has elected to waive its rights to any payments under the Management Stock Plan for this financial year as they consider that most of the Shareholder Return was due to the increase in value of Tree Inversiones, for the difference between the Savills valuation at the time of acquisition of € 1,656 million and the acquisition cost of € 1,577 million, amounting to a total difference of € 79 million of increase in value, which had already been crystallized at the time of the acquisition.

2.3.3. EPRA Performance Metrics

Performance Measure	Definition	31/12/2014
EPRA Earnings	Recurring earnings from core operational activities	20,394.7
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystalise in a long-term investment property business model	1.354,9
EPRA NNNAV	EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.	1,285.0
EPRA Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with acquisition costs	5.86%
EPRA "topped-up" NIY	Adjustment to the the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents)	5.93%
EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio	3.40%

EPRA Earnings have been calculated as follows:

RECONCILIATION OF IFRS NET INCOME WITH EPRA EARNINGS

(€ thousand)	31/12/2014
Consolidated Net Profit in accordance with IFRS	49,670
(i) changes in value of investment properties	-56,718
(ii) profits or losses on disposal of investment properties	-126
(iii) changes in value of financial instruments and associated close-out costs	+25,920
(iv) acquisition costs on share deals / joint ventures	+606
(v) deferred tax in respect of adjustments	+1,042
EPRA Earnings for the fiscal year	**20,395**
EPRA Earnings for the fiscal year per share (€)	**0.16**

3. LIQUIDITY AND CAPITAL RESOURCES

Long-term and short-term debt items include the Company's financial debt, the market value of interest rate and inflation hedging contracts of the debt and other financial liabilities, arising from deposits and guarantees received, according to the following breakdown:

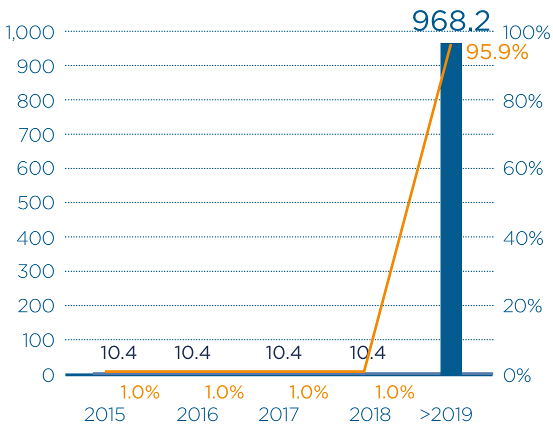
	LONG-TERM	SHORT-TERM	TOTAL
Principal	999,358	10,398	1,009,756
Interests	0	411	411
Gross Financial Debt	**999,358**	**10,809**	**1,010,167**
Cash and Short-term Financial Investments			(151,840)
Total Net Financial Debt			**858,327**
Cash and Short-term Financial Investments			151,840
Arrangement Costs	(25,423)		(25,423)
Market value of interest rate and inflation hedges	53,407		53,407
Guarantees, deposits and other financial liabilities	21,498	190	21,688
Total Debts	**1,048,840**	**10,999**	**1,058,839**

On 31 December 2014, the Company's gross financial debt has the following characteristics

- Average period of duration of the debt from 31/12/2014 until maturity: 9.1 years.
- Average cost of the debt from 31 December 2014 until 31 December 2017: 4.0%
- Average cost of the debt from 31 December 2017 until maturity: 2.7%.

On 31 December, the net financial debt of the Company is 858,327 thousand euros, which equates to 38.5% of the gross value of the assets. The cash position and short term financial investments of the Company are 151,840 thousand euros.

A schedule of the Company's debt maturity profile in the coming years is as follows:



4.
MAIN RISKS AND UNCERTAINTIES

The policies of financial risk management within the commercial real estate sector deal mainly with the analysis of investment projects, the management of the building's occupation and the situation of the financial markets:

- Credit risk: credit risk relating to the Company's ordinary business is not significant because the contracts signed with the tenants require payment in advance of most sums. These contracts also require the tenant to provide legal and additional financial guarantees or deposits to cover possible non-payment of the rent.
- Liquidity risk: The Company, in order to manage liquidity risk and to meet the needs of funds, uses an annual budget and monthly forecast of the liquid assets. This monthly forecast is detailed and updated on a daily basis. The main liquidity risk is due to the potential for negative working capital resulting from short term debt from tenants. The factors mitigating liquidity risk include the following: (i) cash generated in the ordinary course of business is very stable; and (ii) the company's liabilities are largely long-dated and the high quality of the assets provides ample ability to obtain new sources of funding.

When formulating consolidated annual accounts, the Company had already covered all of its funding requirements, enabling it to meet its commitments with providers, employees and the Public Sector, according to the cash flow for FY2014.

Furthermore, given the type of industry in which the Company operates, the investments, the financing for such investments, the stable EBITDA generated and the high occupancy rate of properties is more likely to produce surplus cash. The company's policy is to invest this cash in Short-term investments and liquid deposits with highly rated institutions. The acquisition of options or futures on stocks, or any other high-risk activities as a means of investing its cash surplus are not considered by the Company.

- Interest rate risk: in order to minimize the Company's exposure to this risk, financial hedges, such as interest rate swaps, have been executed. Total interest rate hedged amount to 99% of total debt.
- Exchange rate risk: the Company only invests in assets in Spain and Portugal with all contracts denominated in euro and the Company's policy is to contract debt only in the same currency as that of the cash flows of each business. Therefore, the Company is currently not exposed to exchange rate risk.
- Market risk: MERLIN Properties is exposed to market risk from potential downward movement in rental rates when current contracts terminate. This risk could negatively affect the cash flow and valuation of the assets of the Company. However, the market risk is mitigated by policies of attracting and selecting new high quality clients and negotiating compulsory lease terms that maximize the length of the lease term. For this reason, on 31 December 2014, the occupancy rate of the Company's assets is 96.6%, with a weighted average unexpired lease term of 18.7 years (weighted by gross rents).

5.
EVENTS POST-CLOSING

- On 19 February 2014, MERLIN Properties signed a ten year loan facility of 133.6 million euros with Allianz Real Estate, with mortgage security on Marineda shopping centre. This loan has been signed at a fixed interest rate of 2.66% with no annual amortization requirement and full repayment of principal upon maturity. Post the closing of this financing, MERLIN's loan-to-value ratio (net debt over the value of the assets) is 38.5%, with 1,144 million euros of gross debt financing in place. The weighted average maturity of the Company's liabilities is approximately 9.1 years, with a cost of 3.8% until late 2017 and 2.7% thereafter.
- BBVA exercised its right to substitute certain properties in the Tree portfolio, as set out in the clause 20.2 (Properties Replacement) of the Lease Contract concluded on 25 September 2009. On 3 February 2015, the Company formalized the replacement of 42 branch offices (from Tree Inversiones Inmobiliarias to BBVA) with 45 new branch offices (from BBVA to Tree Inversiones Inmobiliarias). The purchased branch offices' annual income is 3,851,602.7 euros and the appraisal conducted by Savills is 68,592,000 euros. As regulated in the Lease Contract, the earned income, the expiration date, and the value of the sold branch offices are the same as the earned income, the expiration date and the value of the purchased branch offices.

6.
EXPECTED DEVELOPMENTS

In 2015, MERLIN expects to continue with high occupation rates and the maintenance of strong cash flow due to the long remaining lease period (18.7 years from 31 December 2014, weighted by each tenant rents.).

The Company also expects to continue with the acquisition of assets that fit within its investment strategy. To this end, it holds a cash position that exceeds 150 million euros, as well as additional leverage capacity on certain of its assets. After Marineda's financing, the liquid assets of the Company exceeds 284 million euros.

7. R&D INFORMATION / OWN SHARES TRANSACTIONS

The Company has not developed any research and development activities during FY2014.

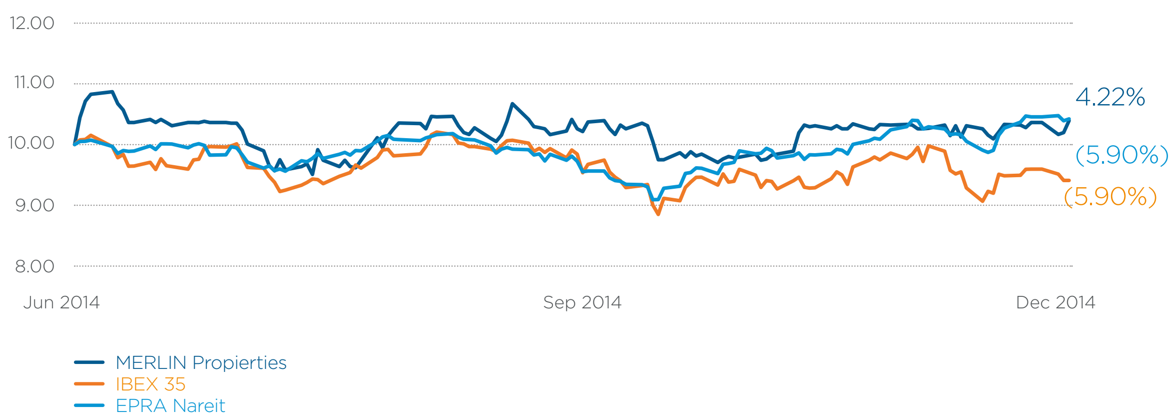
The Company has not carried out any acquisition of own shares.

8. STOCK EXCHANGE EVOLUTION

The stock market capitalization parameters for FY2014 and its evolution are shown in the following data

- Closing Price at year-end 2014 (€/share): 10.03
- Variation in the market price (%): +0.3%
- Market capitalisation at the end of FY2014 (Millions €): 1,296
- Maximum share price in the period: 10.56
- Minimum share price in the period: 9.175
- Average daily trading volume (Millions €): 6.5
- Average daily trading volume (shares): 661,753

MERLIN Properties is part of the EPRA NAREIT's index, an index that reflects the evolution of the real estate companies listed worldwide which meet EPRA's eligibility requirements. MERLIN's stock price has increased from its flotation until 31 December 2014 by +0.3%, compared to the EPRA NAREIT's index evolution, which is +4.4%. Comparatively, the growth in MERLIN Property's stock price from the start of trading until 31 December has been higher than that of the IBEX-35, which dropped 5.9% in the same period.



Certain national and international financial analysts follow the company's development and thus monitor and analyses the value of the shares. The target prices and analyst recommendations, published on 31 December are:

Analyst	Report Date	Recommendation	Target Price(€)
Ahorro Corporación	17/09/2014	Buy	11.70
Deutsche Bank	22/09/2014	Hold	9.30
Morgan Stanley	13/10/2014	Buy	11.60
Sabadell	28/11/2014	Buy	12.54

9. DIVIDENDS POLICY

The Company intends to initiate and maintain a dividend policy that takes into account sustainable levels of distributions. The Company does not intend to create reserves that cannot be distributed to the shareholders, other than those required by law.

According to the Spanish regime for REIT's, the Company will be obligated to adopt agreements to distribute the profits obtained in this financial year in the form of dividends to shareholders, after complying with any relevant requirement of the Spanish Corporation Law. The Company will be obligated to agree its distribution within six months of the close of each financial period, in the following manner: (i) at least 50% of the profits derived from the transfer of real properties, shares, or shareholdings in qualified affiliates, provided that the remaining profits are reinvested in other real estate assets within a maximum period of three years from the date of transmission or, if not, 100% of the profits must be distributed as dividends at the end of this three year period; (ii) 100% of the profits obtained by receiving dividends paid by qualified subsidiaries; (iii) at least 80% of the rest of the obtained profits. If the dividend distribution agreement is not adopted within the legal timeframe, the Company will lose its REIT status during the financial year to which the dividends refer.

10. OTHER

- Related party transactions. For further information on related party transactions, please refer to Note 18 of the consolidated financial statements, attached to this report.

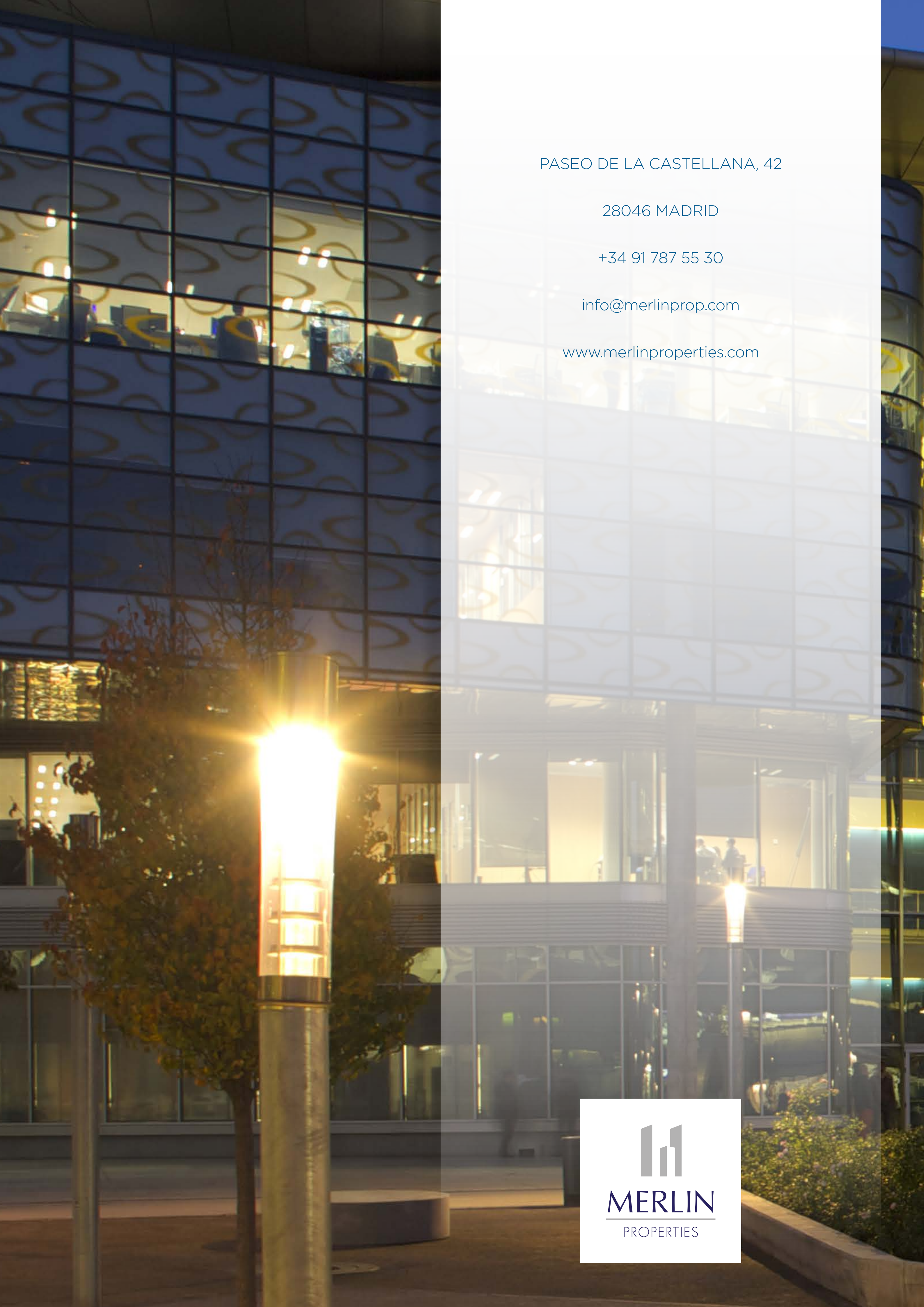
- Bad debt measures and policies. The Company estimates its compliance with the maximum term permitted by the applicable law.

11. CORPORATE GOVERNANCE ANNUAL REPORT

In accordance with article 526 of the “Ley de Sociedades de Capital” (Corporate Law), it is hereby expressly stated that the Corporate Governance Annual Report is part of the present Management Report.

The Corporate Governance Annual Report has been registered with the CNMV on February 26th, 2015, and is available to the public domain on the following link

https://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A86977790



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MERLIN PROPERTIES